Office - Supreme Court,
FILED
OCT 2 7 1956
JOHN T. FEY, Cle

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956.

No. 11

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, ET AL.,
Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA.

BRIEF OF APPELLEE CERTAIN-TEED PRODUCTS CORPORATION.

DONALD N. CLAUSEN,
HERBERT W. HIRSH,
NORMAN A. MILLER,
Attorneys for Appellee, Certain-teed Products Corporation.

CLAUSEN, HIRSH & MILLER,
135 South La Salle Street,
Chicago 3, Illinois,

PURCELL & NELSON,
910 17th Street, N. W.,
Washington 6, D. C.,
Of Counsel.

INDEX.

PAGE

Preliminary Statement 1

Questions Presented 2

Statement of the Case 3

The First Decision of This Court 5

Proceedings on Remand After First Decision of This Court 8

The Decree of November 7, 1949 9

The Second Appeal to This Court 11

The Final Decree of May 15, 1951 14

Events After the Entry of the May 15, 1951 Decree 16

Summary of Argument 24

Argument 32

I. The District Court Had Jurisdiction to Entertain and Determine the Issues Presented by Certain-teed and All Other Petitioners 32

II. The District Court Had the Power to Implement the 1951 Final Decree and to Modify That Decree in Order to Accomplish Such Implementation 37

The Basic Purposes of the 1951 Decree Were Effectuated by the 1954 Decree 43

III. The 1954 Decree Was a Proper Modification to Prevent USG's Violation of the 1951 Decree Through Suits on the Illegal License Agreements 46

IV. The District Court Correctly Ruled on the Record in This Case That as a Matter of Law USG Continued to Misuse Its Patents Until Entry of the 1954 Decree..... 51

Application of Hartford-Empire to the Case at Bar..... 62

V. USG's Contentions Based on Hartford-Empire, Rule 8 of the Federal Rules of Civil Procedure and 35 U. S. C., Section 271(d) Were Properly Rejected by the District Court..... 68

The Government's Position on the So-called Alternative Counts in USG's Complaints.. 80

Conclusion..... 82

TABLE OF CASES.

Aluminum Company v. United States, 302 U. S. 230 (1937) 34

Apex Electrical Mfg. Co. v. Altorfer Bros. Co., 130 F. Supp. 152 (S. D. Ill., 1955) 62

Armstrong v. DeForest Radio-Telephone & Telegraph Co., 10 F. 2d 727 (C. A. 2d, 1926), cert. den. 270 U. S. 663 ..... 40, 45

Associated Press v. United States, 326 U. S. 1 (1945). 62

B. B. Chemical Co. v. Ellis, 314 U. S. 495 (1942) 51

Bellavance v. Plastic-Craft Novelty Co., 30 F. Supp. 37 (D. C. Mass., 1939) 73

Besser Mfg. Co. v. United States, 343 U. S. 444 (1952) 61

In re Boston & Fairhaven Iron Works, 23 Fed. 880 (C. C. D. Mass., 1885) 74

Bruce's Juices v. American Can Co., 330 U. S. 743 (1947) 60, 74

Buckeye Co. v. Hocking Valley Co., 269 U. S. 42 (1925) 33

Carbice Corp. v. American Patents Corp., 283 U. S. 27 (1931) 73

Chrysler Corporation v. United States, 316 U. S. 556 (1942) 40, 50, 62

Cohan v. Robbins Music Corp., 244 App. Div. 697 (1st Dept., 1935) 74

Cole v. Hughes Tool Company, 215 F. 2d 924 (10th Cir., 1954) 79

Continental Wallpaper Co. v. Voight & Sons Co., 212 U. S. 227 (1909) 47, 60

Crosley Corporation v. Hazeltine Corporation, 122 F. 2d 925 (C. A. 3rd, 1941), cert. den. 315 U. S. 813 38

DeWitt v. Elmira Nobles Mfg. Co., 66 N. Y. 459 (1876) 74

Dugas v. American Surety Co., 300 U. S. 414 (1937)..38, 41
Gayler v. Wilder, 51 U. S. 477 (1850)..... 73
Guaranty Trust Co. v. Broadway & Seventh Avenue R. Co., 43 F. 2d 130 (S. D. N. Y., 1930)..... 38
Harriman v. Northern Securities Co., 197 U. S. 244 (1905).....34, 35
Hartford-Empire Co. v. United States, 323 U. S. 386 (1945); 324 U. S. 570 (1945).....
..28, 29, 45, 46, 62, 63, 64, 65, 66, 67, 69, 70, 71, 72, 73, 74, 75
Holmes v. Rowe, 97 F. 2d 537 (C. A. 9th, 1938)..... 37
Hughes v. United States, 342 U. S. 353 (1952)..... 41
International Salt Co. v. United States, 332 U. S. 392 (1947)..... 61
Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U. S. 394 (1947).....48, 49
Kerotest Manufacturing Co. v. C-O-Two Fire Equipment Co., 342 U. S. 180 (1952).....38, 50
Kessler v. Eldred, 206 U. S. 285 (1907)..... 37
Kobe, Inc. v. Dempsey Pump Co., 97 F. Supp. 342 (N. D. Okla., 1951), aff'd 198 F. 2d 416 (10th Cir., 1952), cert. den. 344 U. S. 837.....62, 78, 79
Land v. Dollar, 190 F. 2d 366 (C. A. D. C., 1951), cert. dis. by agreement, 344 U. S. 806..... 38
Local Loan Co. v. Hunt, 292 U. S. 234 (1934).....33, 39
Master Metal Strip Service v. Protex Weatherstrip Mfg. Co., 169 F. 2d 700 (C. A. 7th, 1948), cert. den. 335 U. S. 898..... 77
Mercoid Corp. v. Mid-Continent Investment Co., 320 U. S. 661 (1944).....77, 78
Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U. S. 680 (1944).....77, 78

Metals Disintegrating Co. v. Reynolds Metals Co., 107 F. Supp. 105 (D. Del., 1952), aff'd 228 F. 2d 885 (C. A. 3rd, 1956) 52

Missouri-Kansas Pipeline Co. v. United States, et al., 312 U. S. 502 (1941) 33

Morton Salt Co. v. Suppiger, 314 U. S. 488 (1942) 45, 46, 50, 51, 52, 54

MacGregor v. Westinghouse Electric & Mfg. Co., 329 U. S. 402 (1947) 48, 49

McCullough v. Kammerer Corp., 166 F. 2d 759 (C. A. 9th, 1948), cert. den. 335 U. S. 813 ..... 50, 51

National Foam System, Inc. v. Urquhart, 202 F. 2d 659 (C. A. 3rd, 1953) 52

National Lockwasher Co. v. George K. Garrett Co., 137 F. 2d 255 (C. A. 3rd, 1943) 50, 51

Newburgh Moire Co. v. Superior Moire Co., 105 F. Supp. 372 (D. N. J., 1952) 52

In re Paramount Publix Corp., 8 F. Supp. 644 (S. D. N. Y., 1934) 73, 74

Park-In Theatres v. Paramount-Richards Theatres, 81 F. Supp. 466 (D. Del., 1948), 90 F. Supp. 730 (D. Del., 1950), aff'd 185 F. 2d 407 (C. A. 3rd, 1950), cert. den. 341 U. S. 950 ..... 52, 54, 55

Pennsylvania Water & Power Co. v. Consolidated Gas, Electric Light & Power Co., 209 F. 2d 131 (C. A. 4th, 1953), cert. den. 347 U. S. 960 60

Ryan Distributing Corp. v. Caley, 51 F. Supp. 377 (E. D. Pa., 1943), aff'd 147 F. 2d 138 (C. A. 3rd, 1945), cert. den. 325 U. S. 859 73

S. C. Johnson & Son v. Johnson, 175 F. 2d 176 (C. A. 2d, 1949), cert. den. 338 U. S. 860 40

Schillinger v. United States, 155 U. S. 162 (1894) 73

Standard Oil Co. v. Clark, 163 F. 2d 917 (C. A. 2d, 1947), cert. den. 333 U. S. 873 34

Standard Oil Company v. Markham, 64 F. Supp. 656 (S. D. N. Y., 1945) 34

Stein v. Goddard, 22 Fed. Cas. No. 13,353 (C. C. Cal., 1856) 73

Stroco Products v. Mullenbach, 67 U. S. P. Q. 168 (S. D. Cal., 1944) 77, 78

Swift v. Black Panther Oil & Gas Co., 244 F. 20 (C. A. 8th, 1917) 38

Terminal Railroad Association of St. Louis v. United States, et al., 266 U. S. 17 (1924) 33, 41

Toledo Scale Co. v. Computing Scale Co., 261 U. S. 399 (1923) 38

United States v. Bendix Home Appliances, 10 F. R. D. 73 (S. D. N. Y., 1949) 33

United States v. Columbia Gas & Electric Corp., 27 F. Supp. 116 (D. Del., 1939) 34

United States v. Crescent Amusement Co., 323 U. S. 173 (1944) 62

United States v. General Electric Co., 272 U. S. 476 (1926) 7

United States v. International Harvester Co., 274 U. S. 693 (1927) 33

United States v. National Lead Co., 63 F. Supp. 513 (S. D. N. Y., 1945), aff'd 332 U. S. 319 (1947) 25, 29, 44, 45, 46, 62, 65, 69, 70, 71, 72

United States v. Northern Securities Co., 128 Fed. 808 (S. D. Minn., 1904) 33

United States v. Palmer, 128 U. S. 262 (1888) 74

United States v. Swift & Co., 286 U. S. 106 (1932) ... 40, 41

United States v. United States Gypsum Co., 333 U. S. 364 (1948) 5, 6, 7, 28, 43, 44, 61, 63, 66, 69, 71, 81

United States v. United States Gypsum Co., 339 U. S. 959 (1950).....11, 56
United States v. United States Gypsum Co., 339 U. S. 960 (1950).....11, 59, 63
United States v. United States Gypsum Co., 340 U. S. 76 (1950).....12, 13, 14, 28, 42, 43, 44, 45, 49, 50, 52, 56, 58, 59, 61, 63, 66, 69, 70, 71
United States v. Vehicular Parking, Ltd., 56 F. Supp. 297 (D. Del., 1944), 61 F. Supp. 656 (D. Del., 1945) 52, 62, 65
Urquhart v. United States, 109 F. Supp. 409 (Ct. of Claims, 1953)..... 52
Westinghouse Electric Corp. v. Bulldog Electric Products Co., 179 F. 2d 139 (C. A. 4th, 1950).....50, 52, 66

STATUTES AND RULES CITED.

Federal Rules of Civil Procedure—
Rule 8.....26, 69, 80
Rule 41 (b)..... 4
35 U. S. C., Section 271(d).....29, 30, 69, 77, 78, 79, 80
35 U. S. C., Section 281..... 73
35 U. S. C., Section 283..... 73
35 U. S. C., Section 284..... 73

MISCELLANEOUS CITATIONS.

69 C. J. S. 890 73
Hearings Before Committee on the Judiciary on H. R. 5988, 80th Cong., 2d Sess. (1948) 78
Hearings Before Committee on the Judiciary on H. R. 3866, 81st Cong., 1st Sess. (1949) 78
Hearings Before Committee on the Judiciary on H. R. 3760, 82d Cong., 1st Sess. (1951) 78
H. B. Rep. No. 1923, 82nd Cong., 2nd Sess., p. 9 (1952) 79
Joint Brief for Appellants on Reargument, September 1944, in Hartford-Empire 65
Giles S. Rich — "Infringement Under Section 271 of the Patent Act of 1952"; 21 Geo. Wash. L. Rev. 521 77
Sen. Rep. No. 1979, 82d Cong., 2d Sess., p. 8 (1952) ... 79
1 Williston on Contracts § 3 73

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956.

No. 11.

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, ET AL.,
Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

BRIEF OF APPELLEE CERTAIN-TEED PRODUCTS CORPORATION.

PRELIMINARY STATEMENT.

This brief is submitted on behalf of appellee, Certain-teed Products Corporation ("Certain-teed") one of the petitioners below. Appellee does not include herein any statement as to Opinions Below, Jurisdiction, and Statutes and Rules Involved, as it is satisfied with their presentation in the brief of appellant United States Gypsum Company ("USG").[1]

1. With reference to appellant's footnote (USG Br. 3) to the effect that appellees Newark Plaster Company ("Newark") and Ebsary Gypsum Company ("Ebsary") and USG adjusted their controversies by the payment of certain sums by Ebsary and Newark to USG in settlement of the latter's claim against them for use of its patents, Certain-teed deems it pertinent to advise the Court that subsequent to the entry of the District Court's decree of December 9, 1954, Newark and Ebsary sold all of their assets to Allied Chemical Company and Ruberoid Company, respectively, and that as a condition of such sale it was required that all unliquidated claims against Newark and Ebsary be paid and disposed of.

However, as to the matters contained in appellant's brief relative to Questions Presented and Statement of the Case, Certain-teed believes that they are not correctly or adequately stated. Therefore, a revised Questions Presented is included in this brief. A revised Statement of the Case is also set out hereinafter, in order that Certain-teed may present to this Court matters which have been omitted from appellant's Statement of the Case which appellee believes are essential to a proper consideration of the decree of the United States District Court for the District of Columbia entered on December 9, 1954, modifying the decree of May 15, 1951,[2] from which USG appeals.

QUESTIONS PRESENTED.

1. May USG, having been adjudicated guilty of Sherman Act violations, enjoy the fruits of its inequity through the device of suits for royalties, or for compensation which is the equivalent thereof?

2. Does the misuse disclosed by the record in this case bar recovery by USG?

3. Does the admitted attempt of USG in the suits filed by it to recover on the very license agreements held violative of the Sherman Act constitute such evidence of misuse as to warrant the District Court in taking action through modification of its prior decree to prevent such recovery?

4. Does the record in this case, including the issues raised in appellees' petitions and USG's answers thereto, permit adjudication as a matter of law, without the taking of any evidence, of the patent misuse during any or all of

2. This decree is sometimes referred to herein as the "1951 decree" or the "final decree". The appealed from decree is sometimes referred to herein as the "1954 decree".

the period from February 1, 1948, to and including the date of filing USG's suit?

5. Does the final decree of May 15, 1951 expressly, or by fair intendment, bar USG from suing upon the said license agreements or for reasonable compensation for use of its patents by the co-defendants, patent licensees, during the period from February 1, 1948 to May 15, 1951?

6. Do the basic purposes of the May 15, 1951 decree authorize the modification of that decree which the District Court entered on May 9, 1954?

7. Does the District Court have, and did the District Court properly take, jurisdiction to entertain the petitions of the appellees and to enjoin the suits filed by USG against the appellees?

STATEMENT OF THE CASE.

This appeal involves a controversy between appellant and appellees, who were co-defendants in a civil anti-trust suit instituted by the United States in 1940 and terminated by a final decree entered May 15, 1951.

This decree, among other things, declared patent license agreements granted by appellant to appellees to be illegal, null and void (R. 567). Subsequent to the entry of this decree, suits to recover royalties under said illegal patent license agreements, or the equivalent of such royalties for the use of the patents licensed, were commenced by USG in the District Courts of Iowa, New York and New Jersey (R. 614-654). The District Court, on December 9, 1954, upon petition of appellees, answers thereto of USG, briefs and oral argument, modified said decree of May 15, 1951 to enjoin USG from prosecuting its suits (R. 1159). USG appealed from the decree of modification.

In the anti-trust suit from which all of the foregoing

stems, the Government's complaint charged the defendants were conspiring to fix prices on patented gypsum board and unpatented gypsum products, and otherwise to restrain and monopolize interstate commerce in gypsum board and other gypsum products, in violation of Sections 1, 2 and 3 of the Sherman Act (1947 R. 1).[3]

On March 12, 1943 (1947 R. 350), the District Court granted leave to the Government to amend the prayers in its complaint to include, *inter alia*, a request (1947 R. 347):

> "That the defendant companies, and each of them, and their directors, officers, employees and agents, and all persons or corporations acting on behalf of said companies be enjoined from
>
> (a) bringing any action for infringement of any patent or patents now owned or controlled by any of the defendants or hereafter issued on pending applications now owned or controlled by any of the defendants,
>
> (b) attempting by suit or otherwise to collect royalties or license fees or profits for the use of patents now owned or controlled by any of the defendants or hereafter issued on pending applications now owned or controlled by any of the defendants relating to gypsum products or to any process or machine used in connection with gypsum products, *until it is made to appear to the Court that all improper practices have been abandoned and the consequences of all misuses of patents have been dissipated.*" (Emphasis added.)

This prayer was never withdrawn.

At the close of the Government's evidence, the defendants moved to dismiss the complaint under Rule 41(b) of

---

3. The record filed in the Government's appeal to this Court (333 U. S. 364) will be referred to in this brief and will be designated "1947 R", followed by the page number. All other record references herein will be to the record printed on this appeal and will be designated "R", followed by the page number.

the Federal Rules of Civil Procedure (1947 R. 3901-3905). On June 15, 1946, the District Court sustained this motion and rendered its opinion (1947 R. 3933-4131) (67 F. Supp. 397). On August 5, 1946, the District Court entered judgment dismissing the complaint (1947 R. 4169).

The First Decision of This Court.

On appeal, this Court reversed the judgment of dismissal and remanded the case for further proceedings in conformity with its opinion. *United States* v. *United States Gypsum Company*, 333 U. S. 364 (1948).

In its opinion, handed down March 8, 1948, this Court first summarized the undisputed facts. It stated that (333 U. S. at 368-369):

> "Since its organization in 1901, United States Gypsum has been the dominant concern in the gypsum industry. In 1939, it sold 55% of all gypsum board in the eastern area. By development and purchase it has acquired the most significant patents covering the manufacture of gypsum board, and beginning in 1926 United States Gypsum offered licenses under its patents to other concerns in the industry, all licenses containing a provision that United States Gypsum should fix the minimum price at which the licensee sold gypsum products embodying the patents. Since 1929, United States Gypsum has fixed prices at which the other defendants have sold gypsum board."

This Court noted that the license agreements between USG and the other corporate defendants were generally products of settlements of infringement claims and suits instituted by USG. This Court described the background and negotiation of these license agreements, and concluded this description by pointing out that in 1929 (333 U. S. at 371):

> "two sets of license agreements were signed in which

> United States Gypsum licensed all but two companies manufacturing gypsum board in substantially identical terms and from that date United States Gypsum has maintained rigid control over the price and terms of sale of virtually all gypsum board. Since 1937 the control has been complete."

After stating the undisputed facts, this Court moved on to a description of the Government's charges and of the proof adduced by the Government in support of those charges (333 U. S. at 371-386). This Court stated that it appeared from the Government's evidence that the defendants "had defined in minute detail" both the prices and terms of sale for patented gypsum board, adopted a delivered price-basing point system, specified board sizes, prescribed minimum quantities, regulated terms of delivery, and prohibited consignment sales (333 U. S. at 382-383).

This Court found, in addition, a conspiracy illegally to suppress and/or control the sale of unpatented gypsum board and plaster. With respect to unpatented gypsum board, this Court said (333 U. S. at 397):

> "The provision of the license contract that royalties should be paid on the production of unpatented board is strongly indicative of an agreement not to manufacture unpatented board, and the testimony of the witnesses is ample to show that there was an understanding, if not a formal agreement, that only patented board would be sold. Such an arrangement in purpose and effect increased the area of the patent monopoly and is invalid."

With respect to plaster, this Court said (333 U. S. at 399):

> "The (price bulletins issued, pursuant to license agreements) and the complaints by licensees addressed to Board Survey (agency established under the license

> agreements to police compliance with the agreements) convince us that the defendants attempted to stabilize plaster prices * * *."

Finally, this Court concluded from the "uncontradicted evidence" that "the defendants had acted in concert to eliminate an important class of jobbers." 333 U. S. at 398.

On the basis of its appraisal of the facts proved by the Government, this Court concluded that the patent license agreements and the price bulletins issued pursuant thereto plainly showed a conspiracy to violate the Sherman Act. 333 U. S. at 400. It concluded, further, that its prior decision in *United States* v. *General Electric Co.*, 272 U. S. 476 (1926), upholding the power of a patentee to fix the prices at which a patented product is to be sold by a licensee, "affords no cloak for the course of conduct revealed in the voluminous record in this case." 333 U. S. at 400. This Court said (333 U. S. at 400-401):

> "That case gives no support for a patentee, acting in concert with all members of an industry, to issue substantially identical licenses to all members of the industry under the terms of which the industry is completely regimented, the production of competitive unpatented products suppressed, a class of distributors squeezed out, and prices on unpatented products stabilized. * * * The rewards which flowed to the patentee and his licensees from the suppression of competition through the regulation of an industry are not reasonably and normally adapted to secure pecuniary reward for the patentee's monopoly."

On the basis of these findings and conclusions, and since the District Court's order of dismissal had come at the end of the Government's presentation of its evidence, this Court reversed the order of dismissal and remanded the case for further proceedings in conformity with its opinion. 333 U. S. at 401-402.

Proceedings on Remand After First Decision of This Court.

Following remand of the case to the District Court, the Government filed a motion for summary judgment (R. 35) and defendants filed offers of proof (R. 36-54). The District Court heard argument on the Government's motion in relation to defendants' offer (R. 54-137) and ruled that the offered proof gave rise to no genuine issue as to any fact material to an adjudication that the defendants had violated the Sherman Act and that the motion for summary judgment should be allowed (R. 137-140, 471). Judge Stephens dissented (R. 478).

Thereafter the Government filed proposed findings of fact and conclusions of law and a proposed decree (R. 157). Article VII of the Government's proposed decree provided for the cancellation of the patent license agreements and enjoined the defendants from further performance thereof (R. 163).

Subject to its objection to the entry of any judgment for the Government, USG filed proposed findings and conclusions and a proposed decree (R. 188). Article IV of USG's proposed decree reads as follows (R. 192):

> "1. The minimum price provisions of the Patent Licenses are hereby declared to be illegal.
>
> "2. Each of the Patent Licenses is hereby cancelled and terminated."

At the hearing on the decree proposals, the Government proposed to amend that portion of its proposed decree cancelling the license agreements by substituting a declaration that the patent license agreements were unlawful under the anti-trust laws and illegal, null and void (R. 407). After the hearing, memoranda were filed by various of the parties. In their memoranda certain of the appellees

also subsequently proposed that the decree adjudicate the license agreements to be "illegal, null and void" (R. 424, 430). In its reply memorandum USG said, *inter alia*,

> "The defendants, licensees, can have no purpose in making the suggestion that each patent license be judged illegal except to obtain some advantage with respect to the use of the patents. *They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision* (of March 8, 1948)." (Emphasis added) (R. 437, 440, 444).[4]

The Decree of November 7, 1949.

On November 7, 1949, the District Court entered a final decree (R. 471). Article II of that decree read, in part as follows (R. 473):

> "As used in this decree:
>
> • • • • •
>
> 4. 'Patent Licenses' shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:
>
> Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee;

4. In a memorandum filed by the Government on August 4, 1949, formally requesting that its proposal to have the decree contain an adjudication of "illegal, null and void," the Government said:

> "The USG contention against declaring the license agreements null and void is based on the assumption that only the price-fixing provisions of the licenses are invalid. *It is the Government's position and that of the licensees, that the price terms are not severable from the remaining provisions of the licenses. The whole contract is plainly vitiated by these provisions and must be declared void."* (Emphasis added).

Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;

• • • • •

Agreement dated November 5, 1929, between United States Gypsum Company as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee), as licensee;

• • •"

Article IV of the decree provided that (R. 475):

"Each of the license agreements listed in Article II hereof is *adjudged unlawful* under the anti-trust laws of the United States and *illegal*, null and void." (Emphasis added)

Article V of the decree then went on to enjoin the defendants from (R. 475):

"(1) the further performance or enforcement of any of the provisions of the Patent Licenses, including any price bulletin issued thereunder;

(2) entering into or performing any agreement or understanding among the defendants or any of them for the purpose or with the effect of continuing, reviving or reinstating any monopolistic practice;

(3) entering into or performing any agreement or understanding among the defendants or any of them in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain or stabilize prices of gypsum board or the terms and conditions of sale thereof."

Article VI of the Court's decree (R. 476) directed USG, within ninety days of the effective date of the decree, to grant, upon application, a non-exclusive license under USG's then owned gypsum board patents, at a royalty not in excess of the royalty on the same article or process fixed in the license agreements declared null

and void by the decree (Article IV, R. 475). Article VIII of the decree provided that USG could satisfy the obligation thus imposed on it under Article VI by tendering a license agreement containing the provisions set forth in the forms of agreement "ordered filed herein" and "hereby approved" (R. 476).

USG did *not* tender a new license agreement to any of its licensees. Nor did it make a demand for royalties which had by then accumulated (under the terms of the license agreements) for more than a year and a half (R. 662). USG and two of its officers, however, appealed to this Court (R. 504).

The Second Appeal to This Court.

The basis of USG's appeal was that, on the record as it stood when the District Court granted the Government's motion for summary judgment, there was substantial controversy between the parties as to facts material to the issue of defendants' violation of Sections 1 and 2 of the Sherman Act, and that the District Court therefore erred in entering judgment against the defendants on such motion. On May 29, 1950, the Supreme Court entered an order dismissing USG's appeal. 339 U. S. 959.

The Government also appealed to this Court from the District Court's decree of November 7, 1949 (R. 509). The sole ground of the Government's appeal was that the final judgment of the District Court failed to give adequate relief against the defendants. On May 29, 1950, the same day on which it dismissed USG's appeal, this Court noted probable jurisdiction of the Government's appeal, and further ruled as follows (339 U. S. 960):

> "Article III of the decree of the District Court of November 7, 1949, reading as follows: 'The defendant companies have acted in concert in restraint of

> trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Antitrust Act,' is affirmed. The corporate defendants and Samuel M. Gloyd, doing business as Texas Cement Plaster Company, are enjoined, pending further order of this Court from (1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, maintaining or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and (2) from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof."

The appeal by the Government to this Court raised only issues arising out of the Government's efforts to have the provisions of the District Court decree enlarged. On that appeal, this Court, in its opinion (340 U. S. 76), stated that the basis of its former judgment was that (340 U. S. 84):

> "It would be sufficient to show that the defendants, constituting all former competitors in an entire industry, had acted in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices."

In its second opinion, this Court also determined that the injunction against violations of the Sherman Act, limited to gypsum board, should be extended to cover all gypsum products; that other practices in aid of the conspiracy, such as standardizing products, classifying customers and adopting the use of delivered pricing systems should be specifically enjoined; that the patent abuses

were of such scope and nature as warranted (a) compulsory licensing of existing patents to all applicants, and (b) compulsory licensing of USG's future patents for a period of time.

In connection with the foregoing, this Court stated (340 U. S. at 90-91):

> "• • • The license agreements, as indicated above, required royalties on unpatented open edge gypsum board. Board Survey, the organization created to enforce the license agreements, found possibilities of price evasion to exist by a licensee's cutting prevailing prices on other commodities, sold in conjunction with patented gypsum board. Bulletins, issued to standardize sale practices, criticized rebates as violative of the license agreements. 333 U. S. 364, 386. Defendants' offer of proof did not deny such effort to systematize sales. Their explanation was that the efforts were to enforce legitimate license agreements and were not calculated steps in conspiracy or monopoly. We think the Government's request that the decree's injunctions reach gypsum products, as defined in its proposed decree, is reasonable and should be allowed."

This Court further stated (340 U. S. at 91):

> "• • • Our former *Gypsum* opinion, pp. 382-383, gives a summary of the methods adopted. Another method of regulating sales was by special provision for certain classes of customers, jobbers and manufacturing distributors. See 333 U. S. at 397 and 399, n. 18. We think this would justify the Government's requests." • • •

This Court also stated, with regard to the Government's request for an injunction directed against selling according to a delivered pricing system (300 U. S. at 92):

> "• • • Since the conspiracy for restraint of trade is furthered by this arrangement, use of such a method should be barred for the future." • • •

This Court admonished that in framing the Final Decree, the District Court should "cure the ill effects of the illegal conduct" (340 U. S. at 88), and that "The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct" (340 U. S. at 89).

The Final Decree of May 15, 1951.

Pursuant to the second decision of this Court, the District Court entered its final decree on May 15, 1951 (R. 562). The full text of that decree is attached to appellant's brief as Appendix B.

Article II (5) of the Final Decree reads, in part, as follows (R. 565):

> "5. 'Patent Licenses' shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:
>
> Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee.
>
> Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;
>
> • • • • •
>
> Agreement dated November 5, 1929, between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee), as licensee;
>
> • • • • •
>
> *and any supplement or amendment to any of said patent license agreements.*" (Emphasis added.)

Article IV of the Final Decree provides that (R. 567):

> "Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void."

Article V of the decree provides as follows (R. 567):

"The defendant companies, and their respective officers, directors, agents, employees, representatives, subsidiaries, and any person acting or claiming to act under, through or for them, or any of them, be and each of them hereby is enjoined from entering into or performing any agreement or understanding among the defendant companies or other manufacturers of gypsum products to fix, maintain or stabilize, by patent license agreements or other acts or course of action, the prices, or the terms or conditions of sale, of gypsum products sold or offered for sale to other persons, in or affecting interstate commerce; and from engaging in, pursuant to such an agreement or understanding, any of the following acts or practices:

(1) agreeing upon any basis for the selection or classification of purchasers of gypsum products;

(2) refraining from selling gypsum products to any purchaser or any class of purchasers;

(3) agreeing upon any plan of selling or quoting gypsum products at prices calculated or determined pursuant to a delivered price plan which results in identical prices or price quotation by defendants using such plan;

(4) policing, investigating, checking or inquiring into the prices, quantities, terms or conditions of any offer to sell or sale of gypsum products."

Article VI provides for compulsory licensing by USG at reasonable non-discriminatory royalties and, in addition, makes provision for the determination by the Court of a reasonable royalty where the patentee and the applicant are unable to agree upon a reasonable royalty (R. 567).

Finally, Article X of the Decree provides that (R. 571):

"Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound

thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

Certain-teed paid all royalties due under its license with USG until this Court's opinion of March 8, 1948 held such license agreement to be illegal and invalid. Thereafter, commencing with the month of April, 1948, Certain-teed paid no royalties to USG under said unlawful license (R. 661). Appellee National Gypsum Company (National) paid all royalties under its license until March 10, 1948, after which date it paid no further royalties to USG (R. 607). Other appellees also failed to pay royalties to USG under their unlawful license for approximately the same period.

Events After the Entry of the May 15, 1951, Decree.

After May 15, 1951, Certain-teed and National entered into license agreements with USG under U. S. Patent No. 2,017,022, which was effective as of the date of the decree of May 15, 1951 (R. 607, 662, 783).

USG did not inform or advise the District Court of any claim for royalties now claimed by it, nor did it seek to recover such unpaid royalties as a condition to granting the new license provided for in the 1951 decree. No reference was made in the new license to any alleged past due royalties (R. 662).

On March 11, 1953, USG filed suit against Certain-teed in the United States District Court for the Northern District of Iowa, seeking to recover past due royalties alleged to be due under the unlawful license agreement for the period April 1, 1948, and May 15, 1951. A similar complaint was filed against National in the same court on

January 28, 1953. Similar suits were also filed against Newark in the United States District Court for the District of New Jersey and against Ebsary in the United States District Court for the Southern District of New York (R. 614-654).

Count I of USG's complaint is based entirely on the unlawful license and claims royalties against Certain-teed in the amount of $650,000. In Count 1, USG alleges that it, as licensor, and Certain-teed, as licensee, entered into a license agreement dated October 15, 1929, covering patent No. 2,017,022; that, for the privilege of using said patent, Certain-teed agreed to pay to USG a license fee or royalties equivalent to 1% of Certain-teed's selling price of gypsum board manufactured and sold by it; that Certain-teed failed and refused to pay license fees or royalties for the month of April, 1948, to May 15, 1951, although during that period Certain-teed continued to manufacture and sell gypsum board under said license; that, pursuant to the provisions of said license agreement, Certain-teed, during the period commencing on April 1, 1948 and ending on May 14, 1951, manufactured and sold great quantities of gypsum board as a result of which Certain-teed became indebted to USG for license fees or royalties aggregating $650,000 (R. 646-648).

In Count II, USG alleges that on or about April 1, 1948, USG and Certain-teed determined to discontinue compliance with the provisions of the license agreement and agreed Certain-teed would account for and pay to USG *under said license agreement* the royalty of 1% of Certain-teed's selling price for gypsum board manufactured and sold by it embodying or making use of the invention disclosed and claimed in patent No. 2,017,022. The amount claimed under this agreement is $650,000. (Emphasis added.)

(Counts 1 and 2 are counts directly based on the license agreement adjudicated to be illegal, null and void under the anti-trust laws, although USG at p. 14 of its brief elaborately avoids saying so. At pp. 31 and 44 of its brief, however, USG admits that these counts are based on the license agreements.)

In Count III, USG alleges that on or about April 1, 1948, Certain-teed repudiated the license agreement of October 15, 1929; that USG acquiesced in such repudiation; that Certain-teed made use of patent No. 2,017,022, and in consideration of such use promised to pay to USG the reasonable value thereof. The amount claimed under such promise is $650,000.

In Count IV, USG alleges that on March 11, 1953, Certain-teed, being indebted to USG in the amount of $650,000 for the use of patent No. 2,017,022 between April 1, 1948 and May 15, 1951, promised to pay that amount to USG but failed to do so.

Counts III and IV are described by counsel for USG as *quantum meruit* counts (R. 689).

In Count V, USG charges infringement by Certain-teed of patent No. 2,017,022 for the period from April 1, 1948, to May 15, 1951, and alleges that it has been damaged by such infringement in the amount of $650,000.

Certain-teed filed an answer to USG's complaint in the District Court of Iowa and joining issue on all material allegations of the complaint and pleaded especially, among other things, that USG's suit was barred by the 1951 final decree (R. 725). A similar answer was filed by National (R. 710).

Upon motion made by Certain-teed to stay all further proceedings pending disposition of Certain-teed's petition in the District Court for the District of Columbia, the District Court of Iowa entered an order staying USG's suit

in that court (R. 773). A similar order was entered on the motion of National (R. 766).[5]

On April 22, 1953, Certain-teed filed a petition in the District Court (R. 657) in which, among other things, it alleged the filing of USG's suit in the District Court of Iowa; the allegations of USG's complaint; that said suit was, in effect, an attempt to obtain royalties provided to be paid under the unlawful license agreement or the equivalent of such royalties in damages; that said suit was barred by the final decree of this Court entered on May 15, 1951; and that, as a matter of law, USG's misuse of its patents prevented it from collecting on royalties thereon for any period prior to May 15, 1951.

---

5. On July 9, 1953, Assistant Attorney General Barnes, in support of National's motion for a stay, wrote to the District Judge for the Northern District of Iowa, in part, as follows:

"The United States has an interest in securing full and complete observance of the final judgment entered in the Sherman Act proceeding. On June 30, 1953, it filed in that proceeding a petition which alleges that insofar as the actions which USG has brought against co-defendants (including National Gypsum Co. and Certain-teed Products Corp.) base any claim for recovery on any license agreement adjudged illegal, null and void by the final judgment entered in the antitrust proceeding, such actions are barred by, and constitute an attempt to defeat, said judgment. The petition, a copy of which is enclosed, further states that the United States takes no position as to whether the judgment bars the remaining claims made by USG in these actions, or as to whether the District Court for the District of Columbia should enter an order enjoining USG from prosecuting such further claims. *The United States has no doubt that the district court which entered the antitrust judgment has jurisdiction to enjoin USG from prosecuting the claims made in the instant actions pending in your court. The United States also has no doubt that said district court constitutes a proper tribunal to adjudicate the scope and effect of the prohibitions of its present judgment. In addition that court is alone empowered to determine what further orders, if any, it will issue by way of implementation or modification of its present judgment.*

Under the foregoing circumstances, it would seem appropriate, as well as a matter of judicial comity, to grant the pending motion for stay. * * *" (Emphasis added.)

Certain-teed's petition further alleged that the question of USG's right to collect royalties under its misused patents was inherent in the issues before the District Court; that USG was under the duty, if it sought or attempted to recover such royalties, to apply for and secure the determination of the District Court that it had terminated its misuse and that the evil consequences thereof had been dissipated so that it might thereafter enforce its right to collect compensation for such misused patents; that USG having failed to so apply to the District Court, it was now barred from claiming such compensation for the period prior to May 15, 1951.

It was finally alleged in Certain-teed's petition that any attempt by USG to collect royalties for a period prior to the entry of the final decree of the District Court on May 15, 1951, could be made only in the District Court which entered the final anti-trust decree; that the action filed by USG to enforce the unlawful license agreement in the United States District Court of Iowa constituted a direct attack on the final decree of the District Court; that by its said action USG had made manifest that it was still relying upon the license agreement which the Supreme Court on two occasions and the District Court by its final decree, had held to be illegal, null and void, and that the royalty agreement contained in the license agreement of October 15, 1929, was not severable from the price fixing and other provisions thereof which the Supreme Court and the District Court had held to be unlawful under the anti-trust laws of the United States, and illegal, null and void.

The permanent relief sought by Certain-teed was stated as follows:

(1) An order permanently enjoining USG from further prosecuting the action filed by it against Certain-teed in the District Court of Iowa.

(2) An order permanently enjoining USG from asserting any claim against Certain-teed for payment for the use of said misused patent No. 2017022, or any of its other misused patents.

(3) An order permanently enjoining USG from instituting or threatening to institute, or from maintaining or continuing any action for payment for the use of any misused patent for any period prior to May 15, 1951 (R. 657-665).

Similar petitions were filed by National, Newark and Ebsary (National, R. 604, Newark, R. 666, Ebsary, R. 669).

On June 30, 1953, the United States filed its petition "For Orders or Directions for the Construction, Carrying Out or Enforcement of the Final Decree of May 15, 1951" (R. 757). In its petition, the Government asked the District Court to "enjoin USG from asserting any claim, and from instituting, threatening to institute, or maintaining any action, based, in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof" (R. 759). The Government took no position whether USG's alternative claims were barred by the decree of the District Court entered on May 15, 1951 or whether the District Court should enter an order enjoining USG from prosecuting such claims (R. 759).

On September 9, 1953, USG filed its answers to each of the petitions, putting in issue the allegations upon which relief was claimed and alleged affirmative defenses (R. 777, 790, 800, 805, 810). Briefs were filed by all parties in support of and in opposition to the petitions (R. 774, 775, 812, 814) and oral argument was had on January 12 and 13, 1954 (R. 819, 901).

On July 6, 1954, the District Court, one Judge dissenting, filed an opinion sustaining the petitions and holding, among

other things, that further prosecution of the USG suits should be enjoined (R. 975-1015) (124 F. Supp. 573). On December 9, 1954, the District Court, one Judge dissenting, entered a decree amending the 1951 decree by adding to it a paragraph directing USG to dismiss with prejudice its pending actions against the four corporate petitioners (R. 1159). Thereafter, motion for a new trial was made by USG and briefs were filed in connection therewith by all of the parties. Oral argument was had by the District Court on the motion for a new trial on April 26, 1955 (R. 1214), which was denied (R. 1335, 1336) (134 F. Supp. 69).

The District Court concluded, as the basis for its decree of December 9, 1954, that USG should be enjoined from further prosecuting the Counts I and II of its suit as they were directly based on the license agreements (R. 991, 1011), and since in asserting them the defendant "clearly violate(d) the express provisions of Article IV" (R. 991), the provision of the final decree which declared the patent license agreement to be null and void. As to Count III of USG's complaint the District Court found it was "but a left handed, indirect method for recovering such royalties" (those provided for in the illegal license agreements). The District Court further concluded that since Article IV of the final decree did not expressly or impliedly cover the counts for *indebitatus assumpsit* or for *quantum meruit*, although they are "posed on the same underlying factual situation created by the license agreements" (R. 1011) it would modify the decree in order to enjoin prosecution of such counts (R. 1015). It pointed out that the "purpose and permissible function of an order for modification of an anti-trust decree is to cover something within the broad purposes of the decree but which, for some proper reason, was not included in the existing decree. Almost always, such modifications are concerned with remedies. Usually they concern situations which were either over-

looked at the time the decree was entered or which have arisen or developed after the decree" (R. 999). It noted that it had expressly reserved jurisdiction in Article X of the final decree "to take further action, if experience thereafter should make such necessary or advisable, fully to effectuate the purposes of destroying the monopoly and conspiracy and denying the fruits thereof" (R. 1157). The District Court also concluded that in addition to its expressly reserved power in the final decree, as a Court of Equity it had inherent power to modify its decrees "so as to make them fully effective, provided, however, that the decree may not be enlarged beyond its intended proper scope." (R. 1157). It further concluded that USG had not at any time prior to May 15, 1951, purged itself of its patent misuse and consequently "should be enjoined from further prosecution of all Counts." (R. 1157). It stated that to "allow prosecution of these suits would weaken the effectiveness of the Final Decree" (R. 1157) and both "*because of the practical and legal situation in this case,* and also the teaching in the *Hartford-Empire* case" (emphasis added) it enjoined their further prosecution (R. 1158).

This appeal was taken by USG following the denial of its motion for a new trial by the District Court, one Judge dissenting, on June 30, 1955 (R. 1340).

SUMMARY OF ARGUMENT.

I.

The District Court, under Article X of the 1951 decree, under its inherent equity powers, because of multiplicity of actions, and because of the underlying purposes of the 1951 decree, had and properly exercised its jurisdiction to entertain and determine the issues presented by the petitions of the appellees.

The appellees were parties to the 1951 decree and therefore had a standing to seek relief from the District Court which entered that decree.

The District Court correctly distinguished the authorities relied on by USG and held them to be inapplicable.

The Government did not oppose the petitions filed by appellees but, in fact, sought to enforce the 1951 decree in the same manner sought by the appellees. Counts I and II of USG's complaint filed in the District Courts of Iowa, New York and New Jersey were based on the illegal license agreements, and the Government's petition to enjoin such suits, based in whole or in part on any of the illegal license agreements or on any provision thereof, asked for the same relief as prayed for by the corporate appellees.

The District Court properly held that prevention of multiplicity of actions was a proper basis of equity jurisdiction and that such jurisdiction was present in this case.

II.

The District Court had the power to prevent violation of its decree and to enforce compliance therewith and had the power to implement its decree and modify it in order to effectuate its basic purpose.

To allow USG to proceed with its action in the District Courts would be to interfere with and, in effect, nullify the 1951 decree.

The District Court had full power to protect and compel obedience to the declaratory provisions of its decree, such as those adjudicating the license agreements illegal, null and void.

The District Court properly implemented the 1951 decree through modification to specifically enjoin enforcement of USG's misused patents through the vehicle of its suits in the District Courts of New York and New Jersey. The basic purposes of the 1951 decree were effectuated by the modification order by the District Court's 1954 decree.

The basic purposes of the 1951 decree were to eliminate USG's rigid and complete control over the price and terms of sale of virtually all gypsum board; to cure the ill effects of monopolization and action to restrain commerce in an entire industry under patent licenses, in order to organize the industry and stabilize prices; to cure violations, at least as offensive to the prohibitions of the Sherman Act as those in *United States* v. *National Lead Co.*, 63 F. Supp. 513 (S. D. N. Y., 1945), affirmed 332 U. S. 319 (1947); and to deny future benefits to the conspirators from their forbidden conduct.

USG's Sherman Act violation was not a narrow one.

III.

The District Court, by its 1954 decree, granted relief in accordance with the doctrine announced by this Court denying aid to patentees who have misused their patents.

The question of royalties under the illegal license agreements was squarely covered by Article IV of the 1951 decree. Article IV of the 1951 decree was recognized to pre-

clude recovery by USG for use of its patents prior to the 1951 decree.

The determination of the 1951 decree that the patent license agreements were illegal, null and void in their entirety was a determination of USG's lack of right to enforce the royalty provision of the patent licenses.

The modification of the 1951 decree by the District Court, enjoining USG from enforcing its misused patents against appellees for the period prior to the entry of the 1951 decree effectuated the basic purpose of said decree.

The discretion of the trial court in modifying a litigated decree is greater than its discretion in the molding of the initial decree; an ample degree of discretion must be left to the lower courts in molding and modifying decrees.

IV.

By the opinions of this Court, USG was found to have misused its patents to, among other things, fix and maintain prices, suppress competition of unpatented products, boycott jobbers, and monopolize an industry through price control.

During the period from this Court's first opinion to the entry of the District Court's 1951 decree and beyond, as evidenced by USG's suits on the illegal license agreements, there has been no purge by USG of the misuse of its patents. Prior to the entry of the 1951 decree USG made no attempt to secure the determination of the District Court that it had terminated the misuse of its patents and that the evil consequences thereof had been dissipated; no showing was made by USG that it had abandoned any of the restrictions of its license agreements. USG is still relying upon its illegal license agreements, as evidenced by the suits filed by it against appellees.

The doctrine of misuse bars USG's suits based on the unlawful license agreements.

USG's misuse of its patents and failure to purge such misuse are evidenced by USG's suits based upon the illegal license agreements.

The five facts of purge relied on by USG constituted a surrender of any serious claim to the need for taking evidence. USG's argument with respect to purge rests on the erroneous premise that the anti-trust violation found in this case was a narrow one and related only to price fixing; the fact is, as this Court found in its prior opinions, the anti-trust conspiracy found in this case had broad and pervasive effects on the entire industry.

USG has made no effort to show a dissipation of the effects of the anti-trust conspiracy, and termination alone, if it existed, does not constitute purge in a case like this.

None of the five facts of purge relied on by USG was sufficient to make out a termination of the illegal practices before the 1951 decree.

None of the cases cited by USG (USG Br. 56-60) is applicable to a case of monopolization and industry-wide restraint, such as has been made out in this case. Nor are they applicable to the situation here present, where USG seeks recovery upon the license agreements which this Court has held to be violative of the anti-trust laws and illegal, null and void.

A court of equity properly denies a wrongdoer recovery on an illegal contract.

In the absence of the introduction of facts by USG which would operate in law as purge, the District Court acted within the scope of its discretion in effectuating the basic purposes of the 1951 decree by its modification thereof barring USG from recovery on its misused patents.

Hartford-Empire Co. v. *United States,* 323 U. S. 386 (1945); 324 U. S. 570 (1945), supports the 1954 decree of the District Court. *Hartford-Empire* makes it clear that in a situation like that at bar relief against serious violation of the Sherman Act accomplished through misuse of patents can best be obtained through enjoining enforcement of the misused patents.

Hartford-Empire and the *Gypsum* cases were similar because of misuse of patents to accomplish an aggregation of restraints whose effect was to regulate and regiment an entire industry.

The *Hartford-Empire* remedy was properly granted by the District Court, because the restraints of trade found in the case at bar have been recognized as being of a much more serious nature and pervasive effect than those commonly revealed in patent misuse cases.

At the time of the formulation of the 1951 decree the only claims under misused patents which USG might make were under patent license agreements adjudged to be illegal, null and void by that decree; it was reasonable to believe, therefore, that no additional relief was necessary; USG did not, prior to the 1951 decree, assert any infringement claims against the corporate appellees.

USG, having asserted infringement and other claims against its competitors for the period prior to the entry of the 1951 decree, the District Court properly applied the rule of *Hartford-Empire* forbidding the enforcement of misused patents, where such patents have effectuated control of an entire industry.

V.

The District Court, contrary to USG's contention, did not hold that the mere bringing of an action to recover money for the use of patents constituted misuse; the Dis-

trict Court stated the basis for its holding of continued misuse to be the course of conduct of USG as clearly shown by the proceedings of record in the anti-trust case, and in the suits by USG in which the latter sought to recover directly and indirectly on the illegal license agreements up to the time of the District Court's opinion.

USG's contention that the District Court's decision as to misuse is in conflict with *Hartford-Empire,* Rule 8 of the Federal Rules of Civil Procedure and the provisions of 35 U. S. C. § 271(d) is premised on the claim that this Court had found only a narrow Sherman Act violation in this case. This contention is without merit and was rejected by this Court twice and by the District Court in formulating its 1951 and 1954 decrees.

The *Hartford-Empire* and *National Lead* teaching was considered applicable by this Court in ordering compulsory licensing in this case.

One of the fruits of the conspiracy, in which USG was the dominant factor, and which this Court directed should be forbidden, was the promise on the part of the defendant licensees to pay royalties for the protection given by price-fixing schemes. If USG was to be allowed to collect all the royalties claimed by it up to the time of the entry of the 1951 decree, it would obtain every benefit of the conspiracy.

This Court's disposition of the unique problem of earmarked royalties in its second *Hartford-Empire* opinion does not limit its broad holding in the first *Hartford-Empire* opinion that all defendants, including Hartford-Empire, were to be enjoined from bringing infringement claims under misused patents for the period prior to the entry of the final decree. *Hartford-Empire* fully supports the District Court's action in enjoining USG from enforcing its infringement counts. It constitutes no precedent for USG's suits.

A *quantum meruit* claim will not lie for the use of a patent. The *quantum meruit* counts of USG are also barred because of the precept of *pari delicto*.

Counts I and II of USG's suits are based on the illegal license agreements and violate the 1951 decree, and the so-called alternative counts are simply an indirect way to recover that which the final decree purposed to prevent. The District Court by its ruling did not penalize USG for pleading alternate and inconsistent claims but properly read USG's complaint as establishing that USG was attempting to recover the royalties claimed to be due to it under the illegal license agreements or the money equivalent thereof.

Section 271(d) only establishes that a patentee otherwise entitled to relief is not guilty of misuse by simply enforcing patent rights against infringement or contributory infringement. USG's infringement claim constituted only one of five or six counts; it added to its infrigement claim claims under the illegal license agreements.

A suit on a license agreement is not an enforcement of a patent right within the meaning of Section 271(d). Section 271(d) was enacted to establish the right of a patentee to sue for contributory infringement; it does not authorize the filing of a suit on license agreements adjudicated illegal because of the patentee's misuse of his patent. Section 271(d) can have no application where, as here, there has been a misuse of patents adjudged to be violative of the anti-trust laws.

The Government has not implicitly acknowledged USG's right to seek recovery in the suits filed by it on the so-called alternative counts. The Government invoked the jurisdiction of the District Court to enjoin USG from prosecuting its suits because they were based in whole or in part upon the illegal license agreements and were, there-

fore, barred by and constituted an attempt to defeat the 1951 decree; the Government further contended that the District Court which entered the 1951 decree was alone empowered to determine what further orders should be issued by way of implementation or modification of its judgment.

The Government throughout the history of this case has constantly sought to establish a broad violation of the antitrust laws through use of patent license agreements by USG as the principal dominant concern in the gypsum industry; it has taken two appeals to this Court, resulting in the enlarged and broadened 1951 decree; when USG's suits were filed the Government filed a petition in the District Court praying that USG be enjoined from asserting any claim or maintaining any action based in whole or in part on any of the illegal license agreements or any provisions thereof; it urged that the District Court had jurisdiction to enjoin USG's suits under Article X of the 1951 decree and under its inherent equity powers. The Government owes a duty to this Court to clearly state what its views are regarding USG's right to recover on the so-called alternative counts, and this Court should require the Government to make an affirmative statement as to its position on this point.

ARGUMENT.

I.

THE DISTRICT COURT HAD JURISDICTION TO ENTERTAIN AND DETERMINE THE ISSUES PRESENTED BY CERTAIN-TEED AND ALL OTHER PETITIONERS.

On the facts disclosed by the foregoing Statement of the Case we submit that on the threshold question of jurisdiction the District Court properly ruled that it had jurisdiction to entertain and determine the issues presented by the petitions of Certain-teed and all other appellees, including the Government.

The same argument made by USG in its brief (USG Br. 26-35) and the same cases cited and relied on by it to support that argument were carefully and thoroughly considered by the District Court. The District Court held that the USG contentions were not sound and the authorities relied upon by it were not applicable to the case at bar. In its opinion (R. 979-987) the District Court correctly ruled that it had jurisdiction to entertain and determine the issues presented by the petitions of all appellees because of the express provisions of Article X, because of the inherent power of a court of equity to compel obedience to its decrees, because of multiplicity of actions and because of the underlying and basic purposes of the May 15, 1951 decree. The authorities relied upon by the District Court clearly support the conclusions reached in its opinion.[6]

6. The basis of Judge Coles' dissent was that the Government was "the sole spokesmen for the public interest" (R. 1016). Implicit in Judge Coles' dissent was the view that the District Court would have had jurisdiction had the Government filed a petition seeking to enforce the so-called alternative counts (R. 1015-1018).

Certain-teed believes that there is little to be gained by repeating in this brief the matters so ably stated by the District Court. We submit that under the doctrine announced in *Missouri-Kansas Pipeline Co.* v. *United States, et al.*, 312 U. S. 502 (1941); *Local Loan Co.* v. *Hunt*, 292 U. S. 234 (1934), and *Terminal Railroad Association of St. Louis* v. *United States, et al.*, 266 U. S. 17 (1924), the ruling of the District Court on the threshold question of jurisdiction was eminently sound and correct.

As the District Court pointed out (R. 980-981), the cases cited by USG in the District Court, and upon which USG relies in its brief in this Court (USG Br. 29-35) are distinguishable as they involved not parties to the original decree but persons seeking the right to intervene. Typical of these cases is *Buckeye Co.* v. *Hocking Valley Co.*, 269 U. S. 42 (1925) (USG Br. 30). In some of them (*e. g.*, *United States* v. *Bendix Home Appliances*, 10 F. R. D. 73 (S. D. N. Y., 1949); *United States* v. *Northern Securities Co.*, 128 Fed. 808 (S. D. Minn., 1904)), the Government opposed the intervention. In this case, of course, Certain-teed and the other corporate appellees are parties to the 1951 decree and there is no opposition by the Government to any part of Certain-teed's petition or to the petitions of the other corporate appellees. As shall be pointed out in more detail hereafter, the Government actually sought to enforce the 1951 decree in the manner sought by Certain-teed and the other corporate petitioners.

Returning to the cases relied on by USG in its brief in this Court, it cites *United States* v. *International Harvester Co.*, 274 U. S. 693 (1927) (USG Br. 29, 63), in support of its argument that Article X does not reserve jurisdiction to modify the decree as was done by the District Court in its 1954 decree. We submit that the *International Harvester* case has no application to the case

at bar, because the decree in that case contained an explicit reservation of the power invoked by the Government. The modification sought was denied, because the Court found that the basic purposes of the decree had been achieved and, therefore, that amendment was neither necessary nor appropriate. The ruling of the Supreme Court went to the merits, not to the power.

United States v. *Columbia Gas & Electric Corp.*, 27 F. Supp. 116 (D. Del., 1939), (USG Br. 31-32), was a decision rendered at an earlier stage of the same litigation as that involved in *Missouri-Kansas Pipeline Co.* v. *United States, supra*, and as to the question here involved, was overruled by this Court in its opinion in the *Missouri-Kansas* case.

Nothing in *Aluminum Company* v. *United States*, 302 U. S. 230 (1937); *Harriman* v. *Northern Securities Co.*, 197 U. S. 244 (1905), or *Standard Oil Co.* v. *Clark*, 163 F. 2d 917 (C. A. 2d 1947), cert. denied, 333 U. S. 873, cited by USG as *Standard Oil Company* v. *Markham*, 64 F. Supp. 656 (S. D. N. Y., 1945) (USG Br. 34-35), casts any doubt on the power of the District Court to grant the relief sought by Certainteed. In none of those cases was the power to implement a prior decree in question; those cases involved, at most, the propriety of exercising that undoubted power. And, in each, the circumstances were of a wholly different sort from those in the case at bar.

Thus, the *Aluminum Company* decision rested on the District Court's finding in that case (302 U. S. 232) that

> "'The subject matter, parties, issues and relief sought in the New York suit differ substantially from those in the 1912 suit. The New York suit does not attack the affirmative provisions of the 1912 decree or seek to reverse any action taken by the District Court for the Western District of Pennsylvania in the suit in 1912. The New York suit does not subject Aluminum Company to the peril of two conflicting

> decrees. Aluminum Company will not suffer irreparable injury by being compelled to defend the suit in the Southern District of New York * * *' The district court concluded that the two suits were dissimilar in respect of parties defendant, subject matter, issues and relief sought, and that no basis for an injunction has been shown."

In *Harriman* v. *Northern Securities Company, supra,* the Supreme Court simply ruled, on the merits, that the action complained was not in conflict, but consistent with the prior decree. No question was there raised whether, and under what circumstances, one federal court should undertake to construe the decree of another.

It is implicit in USG's argument, under Point I of its brief, as elsewhere, that the Government did not seek to invoke the jurisdiction of the District Court. At page 30 of its brief, USG says:

> "It is clear that only the Government is entitled to seek to enforce an anti-trust decree in the manner sought by the corporate appellees."

This position is untenable because an examination of the Government's petition (R. 739) and the argument made in support thereof (R. 877) makes it crystal clear that the Government joined with the corporate appellees in requesting that the District Court enjoin the suits filed by USG. The Government's petition prayed (R. 740-741):

> "I. That this Court enjoin USG from asserting any claim, and from instituting, threatening to institute, or maintaining any action, based, in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof.
>
> "II. That your petitioner have such other and further relief as to this Court may seem just and proper."

It is beyond doubt, despite the belated attempt of USG to indicate the contrary, that Counts I and II of USG's complaint were based on the license agreements which the 1951 decree decreed to be illegal, null and void. Obviously, therefore, the Government's petition sought the same relief as Certain-teed and the other corporate appellees, since its prayer and the argument in support thereof asked the District Court to enjoin any suit which was based "in whole or in part" on said license agreements. The question of jurisdiction is not affected by the unwillingness of the Government to take a position as to the other counts of USG's complaints.

With reference to multiplicity of actions as a ground for jurisdiction, the District Court properly held that the prevention thereof is a long-established basis of equity jurisdiction, and that such jurisdiction was present in this case. USG contends that the factual situation usually found, where jurisdiction is taken to avoid multiplicity of suits, is not here at present (USG Br. 33-35). In connection with this argument, USG cites cases which have hereinbefore been distinguished (see pp. 34-35). USG also points to the facts that the suits against Newark and Ebsary have been settled and dismissed. Appellant can hardly use a settlement to which appellees were not parties, and which was made long after the decree was entered, to aid its position on the question of multiplicity. There can be no doubt but that the question of multiplicity must be considered on the basis of the situation which the District Court had before it when it entered its 1954 decree.

We therefore submit that the District Court correctly ruled that it had jurisdiction to entertain and determine the issues presented by all the petitioners.

II.

THE DISTRICT COURT HAD THE POWER TO IMPLEMENT THE 1951 FINAL DECREE AND TO MODIFY THAT DECREE IN ORDER TO ACCOMPLISH SUCH IMPLEMENTATION.

The District Court had the power to prevent violation of the decree entered by it and to enforce compliance therewith, and had the power to implement its decree and to modify it in order to effectuate its basic purpose.

The Court which enters the decree has the power to protect its decree from defeat, circumvention, impairment or frustration. In *Kessler* v. *Eldred,* 206 U. S. 285, 289 (1907), this Court said:

> "If rights between litigants are once established by the final judgment of a court of competent jurisdiction, those rights must be recognized in every way, and wherever the judgment is entitled to respect, by those who are bound by it."

As heretofore pointed out, the decree entered in the anti-trust action rendered illegal, null and void the license agreements between USG and Certain-teed, and between USG and other corporate appellees. To allow USG to proceed with its action in the District Court of Iowa, and other actions filed by it in said District Court of Iowa and the District Courts of New York and New Jersey, would be to interfere with and in effect nullify the decree of the District Court. In *Holmes* v. *Rowe,* 97 F. 2d 537, 539 (C. A. 9th, 1938), the court said:

> "A review of the decisions discloses that a Federal District Court, once having obtained jurisdiction of a controversy, and having rendered a decision in the matter, has complete power to protect the judgment or decree which it has rendered, and may go so far as to enjoin an action entertained in the State court by

> a litigant, involving the same subject matter, when such action may in any way interfere with or nullify the effect of such judicial determination."

See also *Toledo Scale Co.* v. *Computing Scale Co.*, 261 U. S. 399, 426 (1923); *Kerotest Manufacturing Co.* v. *C-O-Two Fire Equipment Co.*, 342 U. S. 180, 183-184 (1952); *Crosley Corporation* v. *Hazeltine Corporation*, 122 F. 2d 925 (C. A. 3rd, 1941), cert. den. 315 U. S. 813; *Guaranty Trust Co.* v. *Broadway & Seventh Avenue R. Co.*, 43 F. 2d 130 (S. D. N. Y., 1930); *Swift* v. *Black Panther Oil & Gas Co.*, 244 F. 20, 27-29 (C. A. 8th, 1917).

As the Court of Appeals for the District of Columbia Circuit pointed out in *Land* v. *Dollar*, 190 F. 2d 366, 373 (C. A. D. C., 1951), cert. dismissed by agreement 344 U. S. 806:

> "• • • to declare that one court can nullify the final decrees of another court which had jurisdiction • • • would mean chaos and the complete collapse of every semblance of orderly judicious process, a consummation to the irreparable damage of public interest."

The District Court had full power to protect and compel obedience to the declaratory provisions of its decree, such as those adjudicating the license agreements illegal, null and void. This Court in *Dugas* v. *American Surety Co.*, 300 U. S. 414, 427 (1937), approved an implementing injunction to compel obedience to the purpose and spirit of prior decrees, and said:

> "• • • the injunction, being only one part of the decrees, is not the exclusive criterion of what was determined and effected by them. It purpose was to forestall anticipated departures, not to limit other provisions or restrict their operation and effect."

The decision of this Court in *Local Loan Co.* v. *Hunt, supra,* makes clear that the District Court had the power to grant the relief sought by Certain-teed in order to protect this Court's decree. In that case this Court, after holding that bankruptcy courts are essentially courts of equity and for proceedings, or inherent proceedings in equity, said (pp. 239-240):

> "That a Federal Court of equity has jurisdiction of a bill ancillary to an original case or proceedings in the same court, whether at law or in equity, to secure or preserve the fruits and advantages of a judgment or decree rendered therein, is well settled * * *
>
> "These principles apply to proceedings in bankruptcy (citing cases). Petitioner relies upon a number of decisions where other Federal Courts sitting in bankruptcy have declined to entertain suits similar in character to the present one, on the ground that the effect of a discharge in bankruptcy is a matter to be determined by any court in which the discharge may be pleaded * * * (citing cases). To the extent that these cases conflict with the view just expressed, they are clearly not in harmony with the general rule in equity announced by this court. * * * courts of bankruptcy are essentially courts of equity, and their proceedings inherently proceedings in equity."

We submit that the District Court, as a court of equity, under the authorities above cited, had the power to support and implement the declaration of status contained in its 1951 decree by enjoining, as it did, the prosecution of the actions which were inconsistent with such declaration.

Assuming, for present purposes, that the District Court's 1951 decree does not bar USG from prosecuting all the claims it has made against Certain-teed in the District Court of Iowa, that decree was properly implemented

through modification so as to specifically enjoin enforcement of USG's misused patents for the period prior to May 15, 1951, through the vehicle of its suits in the District Court of Iowa and in the District Courts of New Jersey and New York. In *United States* v. *Swift & Co.*, 286 U. S. 106, 114 (1932), the Supreme Court held that the power to modify an anti-trust decree was inherent in a court of equity. The court said:

> "Power to modify the decree was reserved by its very terms • • •. If the reservation had been omitted, power there still would be by force of principles inherent in the jurisdiction of the chancery."

The District Court, in Article X of its final decree, expressly reserved jurisdiction to deal with matters such as were raised in Certain-teed's petition. The test of whether an anti-trust decree was properly modified was stated in *Chrysler Corporation* v. *United States*, 316 U. S. 556, 562 (1942), as follows:

> "the test to be applied • • • is whether the change served to effectuate or to thwart the basic purpose of the original consent decree." (Citing *United States* v. *Swift & Co., supra.*)

The test was also stated in *Armstrong* v. *DeForest Radio-Telephone & Telegraph Co.*, 10 F. 2d 727, 728 (C. A. 2d, 1926), cert. den. 270 U. S. 663, where the Court of Appeals said:

> "• • • the object (of a supplemental injunction) is not to amplify, but to *specify* and apply the original injunction to actions and objects non-existent when the case was decided. The inquiry is whether acts and things that have come into existence since decree would have been enjoined by that decree, had they then existed."

See also in this connection *S. C. Johnson & Son* v. *Johnson*, 175 F. 2d 176, 177 (C. A. 2d, 1949), cert. den. 338 U. S. 860

citing *United States* v. *Swift & Co., supra,* and *Dugas* v. *American Surety Co., supra.*

This Court ruled in the anti-trust suit of *Hughes* v. *United States,* 342 U. S. 353 (1952), in a manner which completely sustains the District Court's power to implement and modify its decree as it did by the 1954 decree. Among other contentions made by the Government in that case was the contention that the decree in a prior anti-trust suit should be modified to require Hughes to sell his stock in one of the companies involved. The Government's argument was that the court had power to and could appropriately modify the decree in order to effectuate the basic purpose of the decree. With respect to this argument, the court said, page 357:

> "The Government finds support for the substantial change in the decree by reference to (1) provisions in the decree reserving jurisdiction to amend, and (2) the inherent equity powers of the court. We entertain no doubt concerning the District Court's power to require sale of Hughes' stock after a proper hearing."

USG cites and relies upon the *Hughes* case (USG Br. 63-64) as authority for the proposition that a court may not add new substantive provisions which were omitted and withheld in the first place. The quotation from this Court's opinion relied on by USG only went to one of two grounds urged by the Government, *i. e.*, provisions in the decree reserving jurisdiction to amend. On the other ground urged by the Government, *i. e.*, the inherent equity powers of the court, this Court held that it "entertained no doubt" concerning the District Court's power after hearing to modify the decree.

Terminal Railroad Association v. *United States, supra,* is also cited by USG (USG Br. 64) as support for the foregoing proposition. However, the facts of that case

are totally different as there this Court found on the merits that there must be a plain violation of the decree when read in the light of the issues and the purpose for which the suit was brought. We submit that in this case USG's suits to recover royalties under the illegal license agreements is a plain violation of the 1951 decree. That decree was entered in compliance with this Court's direction to "cure the ill effects of the illegal conduct" and to deny the conspirators, of whom USG was the dominant concern, the "future benefits from their forbidden conduct" (340 U. S. 88, 89).

It may be true as urged by appellant (USG Br. 65) that there is no provision in the 1951 decree that prohibits USG from suing to recover for actual use of its patents, but this is beside the question whether the basic purpose of that decree was to deny USG from securing the benefits from the tainted patents and illegal agreements licensing such patents. Conversely it is equally clear that the 1951 decree granted no right to USG to sue for the use of said patents for the pre-decree period, although no payment had been made for such use.

The power to modify, announced by the foregoing cases is the power for which Certain-teed contended in the District Court, and which was upheld by that Court, *i. e.*, the power to implement and modify a decree in order to effectuate its basic purposes. At the time of the entry of the final decree of May 15, 1951, no suit to recover royalties under the license agreements, or upon the theory of *quantum meruit*, or for infringement, had been filed by USG and no threat of such suits had been made. Since the entry of that decree, however, USG has taken affirmative action by instituting such suits. Applying the test adopted by the Courts where a modification of the decree is sought in order to effectuate

its basic purpose, we submit that such test is completely applicable to the situation here presented, because the filing of USG's suit against Certain-teed and others, was an attempt to thwart, circumvent and defeat the basic purpose of the original decree of this Court.

The decisions of this Court in the *Gypsum* cases, 333 U. S. 364 and 340 U. S. 76, make it clear that one of the basic purposes of the decree which this Court in its later decision directed the District Court to enter in this case, was to "cure the ill effects of the illegal conduct and assure the public freedom from its continuance" (340 U. S. at pp. 88-90).

The District Court has admirably summarized the basic purposes of the 1951 decree (R. 1002-1006) and properly concluded that its modification of the 1951 decree was required to effectuate those purposes.

The Basic Purposes of the 1951 Decree Were Effectuated by the 1954 Decree.

Throughout its brief (USG Br., 27, 39-40, 69-74), USG contends that it was no part of the basic purposes of the 1951 decree to punish USG by confiscating its patents, or to reward the licensee-appellees by giving them free use of valuable patent rights of USG. This argument is one which USG has repeatedly and unsuccessfully made throughout this case, and is based on its claim that the anti-trust violation was a narrow one and that the final decree was entered only to enjoin price-fixing through concerted action (*e. g.*, USG Br., 42-43). This argument is erroneous because the premise upon which it is based is erroneous. As clearly shown by the facts stated in our Statement of the Case (pp. 5-8, 11-14) and in the opinion of the District Court (R. 1002-1006), the basic purpose of

the decree was much broader. Examination of these facts and this Court's second opinion (340 U. S. 76) makes it abundantly clear that the basic purposes of the 1951 decree were sufficiently broad to authorize the District Court to modify the 1951 decree by directing USG to discontinue and to dismiss with prejudice its pending actions against the corporate appellees.

In this connection, we believe it is relevant to point out that this Court found that USG was the dominant concern in the industry (333 U. S. at 368); that through the device of patent license agreements, USG maintained rigid and complete control over the price and terms of sale of virtually all gypsum board (333 U. S. at 371). We also call the Court's attention to the following:

a. The violation was not a narrow one, but consisted of (i) monopolization and (ii) action "* * * in concert to restrain commerce in an entire industry under patent licenses in order to *organize the industry and stabilize prices.*" (340 U. S. 84.) (Emphasis added.)

b. The facts relevant to the problem of relief are not only the price-fixing provisions of the unlawful licenses but also (i) the unlawful licenses in their entirety, (ii) the effects of those licenses on the industry and (iii) all other steps taken by the defendants to regulate and, indeed, monopolize the industry. Into the last-mentioned class of facts falls the elimination of jobbers, the suppression of the manufacture of unpatented board, the concerted use of delivered pricing systems, etc.

c. The violations in this case were at least "as offensive" to the prohibitions of the Sherman Act (340 U. S. at 93), as those in *United States* v. *National Lead Co., supra.*

d. Among the basic purposes of the final decree in this case and the standards governing the relief to be granted, are, as stated by this Court, the following:

1. "to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct and insure the public freedom from its continuance. Such action is not limited to prohibition of the proven means by which the evil was accomplished but may range broadly through practices connected with acts actually found to be illegal." (340 U. S. at 88-89).

2. "The conspirators should, as far as practicable, be denied future benefits from their forbidden conduct." (340 U. S. at 89).

3. "• • • courts should give weight to the fact of conviction as well as the circumstances under which the illegal acts occur." (340 U. S. at 89.)

As will hereinafter be further discussed, an implementation or modification of the decree which specifically enjoins USG from enforcing its misused patents for the period prior to the entry of the 1951 decree is an implementation of its basic purposes. *Morton Salt Co.* v. *Suppiger*, 314 U. S. 488 (1942); *Hartford-Empire Co.* v. *United States, supra; United States* v. *National Lead Co., supra.*

If the test is stated in the terms used by the Court of Appeals for the Second Circuit in *Armstrong* v. *DeForest Radio-Telephone & Telegraph Co., supra,* "whether acts and things which have come into existence since decree would have been enjoined by that decree had they then existed," the relief sought by Certain-teed was equally within the power of the District Court to grant. It is clear we submit that if USG, before May 15, 1951, had made claim for royalties, or for compensation the use of, or infringement damages arising out of the use of its misused patents, the decree of May 15, 1951, would properly have enjoined such claims and actions.

III.

The 1954 Decree Was a Proper Modification to Prevent USG's Violation of the 1951 Decree Through Suits on the Illegal License Agreements.

The District Court, by its modification of the 1951 decree, granted a form of relief derived largely from the decision in *Morton Salt Co.* v. *Suppiger, supra,* in which this Court ruled that the courts should deny their aid to patentees who have misused their patents. The *Morton Salt* rule means that patentees to whom the rule is applicable are denied compensation for the use of their patents. It was applied by this Court to anti-trust defendants in *Hartford-Empire Co.* v. *United States, supra,* and *National Lead, supra,* among others, and it was applied in this case by the District Court.

As pointed out in our Statement of the Case (p. 4), the Government, pursuant to leave of the District Court, on March 12, 1943, amended the prayer of its complaint to include a prayer that the defendant should be enjoined from attempting by suit or otherwise to collect royalties or license fees for the use of patents owned by the defendant until it was made to appear to the Court that all improper practices had been abandoned and the consequences of all misuse of patents had been dissipated. This prayer was never withdrawn, but when the 1951 decree was prepared and entered there was no apparent need for a specific injunction against infringement or other action.[7] The only

7. In its Brief filed in the District Court the Government said (R. 814) (pp. 8-9):

> "The proposed substitute for Article V (of the November 7, 1949 decree) did not include a clause enjoining further enforcement of defendants' license agreements. Since Article IV of the judgment (the 1951 decree) voided these agreements and since an agreement which has been adjudged null and

claim USG had indicated it might make was for royalties under the illegal license agreements. Therefore, the matter of royalties was squarely covered by Article IV of the 1951 decree adjudicating those agreements under which royalties might be claimed "unlawful under the anti-trust laws of the United States and illegal, null and void". As is clear from the actions of the proponents of the Article IV provision and USG in opposition, it was recognized that the Article IV provision reached beyond a ban on the enforcement of the license agreements themselves and applied as well to all enforcement of the underlying patents for the pre-decree period. USG resisted the "illegal, null and void" provision of Article IV because it realized that such a provision would preclude any recovery by USG of compensation for use of its patents for a period prior to the final decree.

Although USG makes much of the statement of counsel for Celotex (not a party to these proceedings) (USG Br. 68), it is a fact that USG *after*, not *before* Mr. Dallstream's statement, made reference to its (USG's) conviction that the proposal was being made in an attempt to relieve the defendants (appellees) from accounting for anything done either before or after the Supreme Court's decision of

---

void cannot be enforced (*Continental Wallpaper Co.* v. *Voight & Sons Co.*, 212 U. S. 227, 260-264), it was the view of the Government that an injunction against enforcement was a pointless reaffirmation of the effect of Article IV. Omission of this injunctive clause also served to emphasize the Government's contention that the prohibitions of the judgment should not be directed solely to barring continuation of the precise licensing scheme which the defendants had used as a means for restraining and monopolizing trade. The Government's position is shown by the following excerpt from Government counsel's oral argument before the Supreme Court:

> " 'As I have said, the judgment declares these (license agreements) illegal, null and void. To enjoin carrying them out is to paint the lily, but accomplishes nothing by way of barring further violation of the Act.' "

March 8, 1948 (R. 437, 440, 444). USG recognized that Mr. Dallstream's statement did not bind anybody, including Mr. Dallstream's client, because in its reply memorandum of July 25, 1949, it said specifically with reference to the proposed decree suggested by Mr. Dallstream:

> "The defendant licensees can have no purpose in making the suggestion that each patent license be adjudged illegal, except to obtain some advantage with respect to the use of the patents. They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision." (R. 437)[8]

After considering the foregoing matters the District Court declared the patent licenses "illegal, null and void" in their entirety and did not, as proposed by USG, declare illegal only the minimum price provision of the patent licenses.

This adjudication, on its face and particularly when read in the light of the Supreme Court's decision in *Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394 (1947), and *MacGregor* v. *Westinghouse Electric & Mfg. Co.*, 329 U. S. 402 (1947), was a determination of USG's lack of right to enforce the royalty provision in the patent licenses. The *Katzinger* and *MacGregor* cases did not depend on the invalidity of the patents involved. In those cases the question

8. The District Court did not find that Mr. Dallstream's assurances bound Certain-teed. Its statement that Mr. Dallstream had disavowed apprehensions of USG (that Article IV of the 1951 decree was intended to avoid an accounting) on behalf of Celotex, and Certain-teed was no determination of an issue. Further it is submitted that counsel for Certain-teed merely deferred to Mr. Dallstream as to "the exact changes we desire to make in both decrees (USG's and the Government's) but indicated no agreement with Mr. Dallstream's statement (R. 364, 992). When Mr. Dallstream spoke he said: "as far as *my client is concerned* we are willing to let the royalty rate * * * apply back to the time when we ceased paying royalties". (Emphasis added.)

of patent validity was relevant only because if the patent was invalid the price fixing provision violated the federal anti-trust laws. In the case at bar the license agreements concededly violated the anti-trust laws even if the underlying patent is valid.

This Court held in *Katzinger* and *MacGregor* (329 U. S., at page 401) that:

> "Metallic's obligation to pay royalties and its agreement to sell at prices fixed by Katzinger constituted an integrated consideration for the license grant. Consequently, when one part of the consideration is unenforceable because in violation of law, its integrated companion must go with it. * * *
>
> "The royalties here claimed accrued, if they accrued at all, prior to the time the license agreement terminated. Consequently, the fact of subsequent termination does not free the promise to pay royalties from the taint of the price-fixing provision."

It is difficult to envisage language which could bear more directly on the case at bar.

The District Court's decision to modify the final decree of May 15, 1951, was made only after extensive argument and briefing. Exercise of its power to modify was clearly designed to effectuate the basic purposes of the original decree, which, as this Court stated, were, among others,

> "so far as applicable, (to) cure or allay effects of the illegal conduct and assure the public freedom from its continuance * * *. The conspirators should so far as practicable be denied future benefits from their forbidden conduct." (340 U. S., at pages 88-89.)

Modification of the decree specifically enjoining USG from enforcing its misused patents against appellees for the period prior to the entry of the final decree did no more than apply and implement that purpose. *Morton*

Salt Co. v. *Suppiger, supra; Westinghouse Electric Corp.* v. *Bulldog Electric Products Co.*, 179 F. 2d 139 (C. A. 4th, 1950); *McCullough* v. *Kammerer Corp.*, 166 F. 2d 759 (C. A. 9th, 1948) cert. den. 335 U. S. 813; *National Lockwasher Co.* v. *George K. Garrett Co.*, 137 F. 2d 255 (C. A. 3rd, 1943).

The modification merely made explicit that which necessarily must be implied, if Article IV of the 1951 decree was to have any purpose or effect. The modification also served to prevent USG's attempt to subvert the decree both directly through count on the illegal agreements and elsewhere as the District Court found through "a left-handed, indirect method" (R. 1009).

Even greater reason attaches for honoring the discretion of the trial court in modification of a litigated decree than in the "molding" of the initial decree, which this Court has called "this most significant phase of the case," *United States* v. *United States Gypsum Co.*, 340 U. S. 78, 89. Inappropriate provisions in the initial decree may defeat the great objective of the anti-trust litigation "to restore future freedom of trade" (*id.*). A modification of the decree designated to "effectuate" rather than "to thwart the basic purpose" of the original decree (see *Chrysler Corp.* v. *United States, supra*) is an action which cannot defeat the public interest in the litigation, and as to its need the trial court with intimate knowledge of the record has particular competence. The lower Court did no more than mold its decree to accommodate a change in circumstances.

As this Court recently said, "necessarily an ample degree of discretion appropriate for disciplined and experienced judges must be left to the lower Courts." *Kerotest Manufacturing Co.* v. *C-O-Two Fire Equipment Co., supra.*

IV.

THE DISTRICT COURT CORRECTLY RULED ON THE RECORD IN THIS CASE THAT AS A MATTER OF LAW USG CONTINUED TO MISUSE ITS PATENTS UNTIL ENTRY OF THE 1954 DECREE.

By the opinions of this Court, USG was found to have misused its patents, to, among other things, fix and maintain prices, suppress competition of unpatented products, boycott jobbers, and monopolize an industry through price control. The doctrine announced by this Court in *Morton Salt Co.* v. *Suppiger, supra,* and *B. B. Chemical Co.* v. *Ellis,* 314 U. S. 495 (1942), is completely applicable to the foregoing patent misuses committed by USG. In *Morton Salt Co.* v. *Suppiger, supra,* this Court said (p. 493):

> "Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so until at least it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated."

In *B. B. Chemical Co.* v. *Ellis, supra,* this Court said (p. 498):

> "• • • petitioner suggests that it is entitled to relief because it is now willing to give unconditional licenses to manufacturers on a royalty basis, which it offers to do. It will be appropriate to consider petitioner's right to relief when it is able to show that it has fully abandoned its present method of restraining competition in the sale of unpatented articles and that the consequences of that practice have been fully dissi-

9. The doctrine announced in the foregoing cases has been applied to various types of improper extension of the patent monopoly; use of the patent monopoly to suppress competition of goods not covered by the patent—*National Lockwasher Co.* v. *George K. Garrett Co., supra; McCullough* v. *Kammerer Corp.*,

In *United States* v. *Vehicular Parking, Ltd.*, 56 F. Supp. 297 D. Del., 1944), 61 F. Supp. 656 (D. Del., 1945), the court stated the rule as to what constituted purge, saying (56 F. Supp. at 298):

> "But defendants' self-purging does not result from their mere declarations that they will carry the decree into effect. Examination in these cases consists of a change in the method of doing business. When and if defendants are able to show a course of conduct which is free from the present taint of illegality, then consideration will be given * * * to delete [the injunction against enforcing their patent rights]."

A year later the defendants applied to the court for elimination of this injunction. But the court again rejected the application saying (61 F. Supp. at 658):

> "The findings which have been made in the case at bar manifestly support the charge of misuse of patent. Under these circumstances, I have already held that (see 56 F. Supp. 297, 298) when defendants are able to show a course of conduct which will be free from past taints of illegality, fresh consideration will be given to the elimination of paragraph 10 of the present decree. A year has passed. There has been no disclosure or report (either to this Court or the Department of Justice) of the defendants' present or future methods of doing business or the manner in which they

---

supra; Park-In Theatres v. *Paramount-Richards Theatres*, 81 F. Supp. 466 (D. Del., 1948) 90 F. Supp. 730 (D. Del., 1950), aff'd 185 F. 2d 407 (C. A. 3rd, 1950), cert. den. 341 U. S. 950; use of the patent monopoly to fix prices—*Westinghouse Electric Corp.* v. *Bulldog Electric Products Co., supra; Metals Disintegrating Co.* v. *Reynolds Metals Co.*, 107 F. Supp. 105 (D. Del., 1952), aff'd 228 F. 2d 885 (C. A. 3rd 1956); *Newburgh Moire Co.* v. *Superior Moire Co.*, 105 F. Supp. 372 (D. N. J., 1952). (In the last cited case, the District Court relied on this Court's opinion in the *Gypsum* case to sustain its conclusion that the *Morton Salt* doctrine applied); use of the patent monopoly to drive out jobbers—*Urquhart* v. *United States*, 109 F. Supp. 409 (Ct. of Claims 1953); *National Foam System, Inc.* v. *Urquhart*, 202 F. 2d 659 (C. A. 3d, 1953).

> are utilizing their parking meter patent rights. It is now concluded that an additional passage of time must occur for it to appear that defendants have exculpated themselves from their former violations of the anti-trust laws. Such report may come in the future; but until then the specific sanctions imposed by paragraph 10 must stand."

It is clear from the record in this case that during the period from this Court's first opinion to the entry of the District Court's decree on May 15, 1951, and beyond, as evidenced by the suits on the illegal license agreements, there has been no purge by USG of its misuse of its patents.

USG opposed the entry of the decree entered November 7, 1949. It took an appeal therefrom on the ground that its license agreements with its licensees was proper and valid. In the order of this Court dismissing USG's appeal, this position was recognized and this Court, among other things, enjoined USG from enforcing in any manner whatsoever the provisions of their "current license agreements." Prior to the entry of the decree of May 15, 1951, USG made no attempt to apply for and secure a determination of the District Court that it had terminated the misuse of its patents and that the evil consequences thereof had been dissipated. No showing was made by USG that it had abandoned any of the restrictions of its license agreements. On the contrary it maintained in its appeal from the District Court's decree of November 7, 1949 that its license agreements were valid. The final and compelling evidence that USG is still relying upon its license agreements, is contained in Counts I and II of the complaint filed by it in the Iowa District Court against Certain-teed and in similar counts in the complaints filed by it in other District Courts against other licensees, in which recovery is sought upon the license agreements which

this Court twice, and the District Court in its decree of May 15, 1951, held to be illegal, null and void. We submit that by reason of the foregoing, it is manifest that as a matter of law USG misused its patents and did not purge such misuse.

With regard to the right of USG to recover under Counts I and II of its complaint in the Iowa District Court, it is clear that the doctrine of misuse announced in the *Morton Salt* case and others, bars any suit on the unlawful license agreements and the question of purge is not involved.

In *Park-In Theatres* v. *Paramount-Richards Theatres,* 90 F. Supp. 730 (D. Del., 1950), the Court held that in a suit for royalties under a license agreement containing an illegal provision, the defense of misuse could not be defeated by a showing of purge. The court said (90 F. Supp., at 735):

> "It seems reasonably clear (the patentee) could only recover royalties under the agreement of November 20, 1940 for the period during which that agreement was in force, and that the agreement contained the condemned restrictive covenant so long as it was enforced. Recovery of royalties is, therefore, barred for the whole term of its existence by reason of its unenforceability."

Park-In Theatres v. *Paramount-Richards Theatres, supra,* is cited by USG as authority contrary to the District Court's ruling on continued misuse (USG Br. 47, 48). That case is not in point. Plaintiff in *Park-In Theatres* initially alleged two causes of action — one for an accounting for royalties under a patent license agreement and a second or alternative cause of action for patent infringement. Certain defendants moved to dismiss on the ground that the license agreement contained provisions in violation of public policy and was therefore un-

enforcible, and that as a further consequence the patent infringement action could not be maintained. Disposition of the motion to dismiss was deferred by the court for further facts. (81 F. Supp. 466.) A motion for summary judgment, based on the same contentions, was then filed. Plaintiff then filed an amended complaint and defendants renewed their motions for summary judgment and to dismiss with reference to the amended complaint. Based on the facts and affidavits before it, the district court held that the plaintiff's license agreement tended to restrain competition and was therefore violative of public policy. Accordingly, it granted the defendants' motion for summary judgment as to the first cause of action.

As to the cause of action for patent infringement (which appeared as the fourth cause of action in the amended complaint), the court held that the record before it created an issue of fact whether plaintiff had purged its misuse of its patent, and the court denied summary judgment on this cause of action.

In the *Park-In Theatres* case there was no prior adjudication that the license agreement in question was "illegal, null and void". In fact, in a prior action brought by Park-In Theatres against Loew's Drive-In Theatres, the very contract terms in question in the *Park-In Theatres* case were held lawful and not violative of the antitrust laws. 70 F. Supp. 880, 887 (D. C. R. I. 1947). Hence, in the *Park-In Theatres* case, the action was brought on a license agreement the terms of which had previously been adjudicated legal. Therefore, the mere bringing of a suit by Park-In Theatres could not be misuse as a matter of law. If, however, Park-In Theatres had subsequent to this decision sought in some manner to enforce its license agreements declared unenforcible in this decision, it would be in a position somewhat analogous to USG and upon those

facts might very well be considered to have continued its misuse by institution of suit on the illegal patent license agreement.

USG urges (USG Br. 48-52) that the questions of misuse and purge involve a factual inquiry and cannot be decided as a matter of law without a hearing on all pertinent facts at issue. This argument is similar to the argument which USG previously made to this Court in support of its claimed right to introduce evidence that it had not violated the anti-trust laws. This Court rejected that argument (339 U. S. 959, 340 U. S. 76), and should reject the argument now made in USG's brief that it has the right to introduce evidence on the question of misuse and purge.

The effective and complete answer to USG's argument and the cases cited in support thereof at pages 48-51 of its brief is that the District Court found USG guilty of patent misuse on the grounds determined by this Court, and adhered to by the District Court (R. 995, 996, 1006). Among other things, this Court had determined that through the device of patent license agreements, USG, the dominant concern in the gypsum industry, had fixed and maintained prices, suppressed competition of unpatented products, eliminated jobbers and monopolized an industry through price control. Upon such determination the District Court, in its 1951 decree, decreed the patent license agreements and any supplement or amendment thereto to be illegal, null and void. Despite such decree, USG sued directly upon said illegal, null and void license agreements. Under such circumstances there was no need for determination by the District Court whether USG's patent misuse, which resulted in the entry of said decree, continued, or whether USG had purged such misuse. It was evidence enough of such continued misuse

and absence of purge when USG filed its suits based upon the illegal license agreements. None of the cases cited by USG is applicable to the situation here presented, because in none of them was there such a flagrant flouting of a decree as is present in this case.

The District Court properly found that USG's patent misuse continued subsequent to May 15, 1951, because of USG's attempt to recover royalties on the illegal license agreements.

USG argues (USG Br. 52, *et seq.*) that it submitted to the District Court for illustrative purposes only, five facts of purge. USG though it had ample opportunity to do so, made no offer of proof relative to any other facts which might show purge or dissipation of the unlawful restraints found by this Court and the District Court in this case. USG relied on the facts of purge which it urged on the District Court and which it urges on this Court. The District Court said of USG's reservation (that such facts of purge were illustrative only) "in spite of this cautionary reservation, we must conclude that USG is presenting here those matters which it regards as most potent in showing a purge" (R. 1012). The failure of appellant to specify as evidence of purge, matters other than those of record which it asserted operated as a purge in law, constituted a surrender of any serious claim to the need for taking of evidence.

Like all of USG's contentions, its argument with respect to the purge issue rests on the erroneous premise as to the scope and effect of the anti-trust violation found in this case. It is USG's assumption throughout its brief, that the only effect of the illegal price fixing was the fixing of prices; that as soon as price fixing ended the misuse was purged.

The fact is, however, that the antitrust conspiracy

found in this case had broad and pervasive effects on the entire industry. What was found was that (340 U. S. at 84):

> "'the defendants, constituting all former competitors in an entire industry, had acted in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices'."

This concert of action, this Court found, resulted not only in fixing prices, but in adding "to the cost of producing unpatented board" (340 U. S. at 86), "standardization of trade practices" (340 U. S. at 91), and "regulating sales * * * by special provision for certain classes of customers, jobbers and manufacturing distributors" (*ibid.*)

It is clear that the comprehensive, industry-wide effects of the conspiracy in restraint of trade could not be dissipated overnight, by the mere termination of price-fixing. Unpatented board could not be produced and marketed in competition with patented board before the passage of a substantial period of time; trade practices which had been standardized for years could not be made competitive in a matter of weeks, months, or, perhaps, even years; manufacturing plants which had been geared to the patents licensed could not be converted for a long time; jobbers could not re-enter the field as soon as a court decree ended the discrimination which had forced them out.

In any event, USG has made no effort whatever to show a dissipation of the effects of the antitrust conspiracy. It has broadly alleged termination of the illegal practices. But termination alone does not constitute purge in a case like this.

Moreover, none of the particular acts or events mentioned by USG to show purge (USG Br. 63) are even sufficient to make out a termination of the illegal practices

before the 1951 decree. We will consider and answer these facts *seriatim:*

1. USG expressly retained the right to again fix prices; price fixing was only one part of USG's illegal activities;

2. Though some of the defendant licensees ceased to pay royalties after March 8, 1948, that was a unilateral decision in which USG did not concur. USG constantly made its view clear that it remained entitled to compensation for the use of its patents and brought actions against various licensees for royalties under the illegal agreements. Furthermore there was no rescission of the illegal license agreements, as is clearly evidenced by USG's complaints based thereon.

3. The offer of new licenses was made only in connection with the consideration of a form of decree. It was not a commercial tender and the new licenses could only be deemed available when and if the decrees to which they were attached were adopted. No decree took effect in this case until May 15, 1951.

4. The decree of November 7, 1949, was stayed on motion of USG pending USG's appeal from that decree to the Supreme Court.

5. The interlocutory injunction entered by this Court on May 29, 1950 (339 U. S. 960) granted only partial relief, pending the Court's determination of what decree provisions were required and necessary "to cure the ill effects of the illegal conduct and to assure the public freedom from its continuance." (340 U. S. at 88.)

A decree which was intended to meet that standard was not entered until May 15, 1951. Moreover, no judicial decree can instanter dissipate the effects of a comprehensive conspiracy in restraint of trade such as that here involved.

We submit that none of the cases cited by USG (USG Br. 56-60) suggests that when a case of monopolization

and industry-wide restraint has been made out, a purge of misused patents can be effected by mere termination of the misuse. All of these decisions recognize implicitly or explicitly that dissipation of the effects of the misuse must also be shown in such a case. In this respect USG has made no showing.

Further, the cases cited by USG (USG Br. 56-60) in support of its argument that the five purge facts either constitute a purge of any patent misuse by USG or, at the least, prevent a summary judgment of non-purge, have no application to the case at bar. The first group of these cases (USG Br. 56-58) are to the effect that the patentee's affirmative unilateral action to cease or terminate the alleged patent misuse is a recognized means of purge. However, in none of the cases cited by USG was there a situation which is here present, to wit, a suit based upon the illegal patent license agreements, in which recovery was sought upon the self-same agreements which this Court and the District has held to be violative of the anti-trust laws and illegal, null and void. The cases cited by USG would be applicable, if USG dismissed in toto their suits against the appellees.

In this connection, we submit that there is nothing shocking in a court of equity denying a wrongdoer recovery on an illegal contract. *Bruce's Juices* v. *American Can Co.*, 330 U. S. 743, 748 (1947). This Court stated in that case, at page 756:

> "If in order to prove his own case a plaintiff proves his violation of law, then no court will aid the plaintiff to recover."

See also *Continental Wallpaper Co.* v. *Voight & Sons Co.*, 212 U. S. 227 (1909) and *Pennsylvania Water & Power Co.* v. *Consolidated Gas, Electric Light & Power Co.*, 209 F. 2d 131 (C. A. 4th, 1953), cert. den. 347 U. S. 960.

A second group of cases, holding that evidence of mutual

rescission or disregard of offending agreements establishes purge, is relied on by USG (USG Br. 59, 60). The foregoing statement of the holding of these cases is enough to establish that they can have no application to the case at bar. The suits filed by USG in the District Courts clearly show that there was no mutual rescission and no disregard of the offending agreements, since they were the basis of such suits.

The entry of an anti-trust decree enjoining the continuation of the alleged misuse is also relied upon by USG as establishing purge (USG Br. 60). This doctrine is of no consequence in this suit because, despite the decree enjoining the continuation of the alleged misuse, USG sued to recover royalties under the illegal agreements licensing the misused patents.

At page 61 of its brief USG again relies upon the argument, made throughout its brief and through the entire history of this case, of the narrow adjudication of law violation in this case. From that premise it contends that such adjudication fails to prove misuse in the 1948-1951 period. We submit that this Court has twice overruled USG's contention as to the narrow adjudication of law violation in this case and that, therefore, its argument based on such false premise is unsound. To sustain USG's contention would be a complete frustration of the decisions of this Court in the *Gypsum* case.

In the court below, USG made no attempt to introduce facts which would operate in law as purge. Consequently, the District Court, using its "more flexible procedure for the settlement of a decree" (340 U. S. 76), acted within the scope of its discretion in effectuating the basic purpose of the May 15th, 1951 decree, by barring USG from recovery on its misused patents in actions brought against petitioners based on illegal license agreements covering said patents. *Besser Mfg. Co.* v. *United States*, 343 U. S. 444 (1952); *International Salt Co.* v.

United States, 332 U. S. 392 (1947); *United States* v. *National Lead Co., supra; Associated Press* v. *United States*, 326 U. S. 1, 22 (1945); *United States* v. *Crescent Amusement Co.*, 323 U. S. 173 (1944); *Chrysler Corp.* v. *United States, supra.*

Application of Hartford-Empire to the Case at Bar.

USG relies on *Hartford-Empire, supra,* in Points II, III and IV of its brief to sustain various of its positions. We also rely on *Hartford-Empire* to sustain the 1954 decree entered by the District Court. We therefore believe it useful to discuss at some length the application of *Hartford-Empire* to the case at bar.

An order barring infringement actions for the period prior to the entry of the final anti-trust decree is a well-recognized remedy where patent abuses have been proved in an anti-trust action, and such a remedy is required for effective relief. On facts much less compelling than those that appear in the anti-trust record in this case, the courts have adopted and sustained provisions in anti-trust decrees barring infringement actions for the period prior to the entry of the decree. *Hartford-Empire Co.* v. *United States, supra; United States* v. *National Lead Co., supra.* See also *United States* v. *Vehicular Parking, Ltd., supra.*[10]

The decision of this Court in the *Hartford-Empire* case makes it clear that, in a situation like that at bar, complete relief against serious violations of the Sherman Act accomplished through misuse of patents can best be obtained

10. Lower court decisions have applied the teaching of these cases, so that it is now often provided in litigated anti-trust decrees that patentees misusing their patents under the anti-trust laws are enjoined from asserting infringement or other rights under their patents until the effects of their violations can be shown to have been fully dissipated. *Kobe, Inc.* v. *Dempsey Pump Co.*, 97 F. Supp. 342 (N. D. Okla. 1951), aff'd 198 F. 2d 416 (10th Cir. 1952), cert. denied 344 U. S. 837; *Apex Electrical Mfg. Co.* v. *Altorfer Bros. Co.*, 130 F. Supp. 152 (S. D. Ill., 1955).

through enjoining enforcement of the misused patents, at least with respect to the period antedating the anti-trust decree.

This Court dealt with the *Hartford-Empire* case in two separate opinions, the first in January 1945 (323 U. S. 386) and the second in April 1945 (324 U. S. 570). The *Gypsum* case was dealt with by the Supreme Court in three opinions, the first in March 1948 (333 U. S. 364), the second in May 1950 (339 U. S. 960) and the third in November 1950 (340 U. S. 76).

It appears from a reading of these five opinions that both cases were similar in the following four major respects:

(1) The unlawful combination controlled an entire industry. In *Gypsum* (east of the Rockies) the control was 100%; in *Hartford-Empire*, 94%.

(2) Control was effectuated through patent pooling and licensing. In *Hartford-Empire* the patents were pooled primarily in the Hartford-Empire Company; in *Gypsum*, the patents were pooled in USG.

(3) Control covered not only patented but unpatented products. In *Hartford-Empire*, the patents which covered machinery were used to extend control over unpatented glassware. In *Gypsum* the patents which covered wallboard were used to extend control over unpatented board and plaster.

(4) The patents were used to fix the prices of both patented and unpatented products. In *Hartford-Empire*, the patents were used to fix the price at which patented machinery was leased and licensed to glassware manufacturers and there was some slight evidence of price-fixing of unpatented glassware. In the *Gypsum* case price fixing was extended to all gypsum products, patented and unpatented.

The essential similarity of the two cases lies in the misuse of patents to accomplish an aggregation of restraints whose net effect was to regulate and regiment an entire industry.

This Court, in both cases, ordered compulsory licensing at reasonable royalties of both existing and future patents.

What is most significant is that in *Hartford-Empire*, the Government also was granted an injunction forbidding each of the corporate defendants from asserting any claim for infringement of misused patents for any period of time prior to the entry of the final judgment (323 U. S. 386, 418).

Hand-in-hand with the compulsory licensing remedy, this *Court ordered that the defendants also be enjoined from asserting any claims for alleged infringement prior to the entry of the Final Decree.* The pertinent statement of Mr. Justice Roberts, for the Court, is as follows (323 U. S. 386, 418-419):

> "Paragraph 26 enjoins all of the corporate appellants, and all of the individuals associated with them, until the entry of a finding by the court on the petition of any defendant that the consequences of the conduct of the defendants in violation of the anti-trust laws have been fully dissipated, from the following acts: (a) bringing, maintaining, or taking any action in any suit for infringement of any patent owned or controlled or hereafter issued * * *; (c) attempting to collect royalties or license fees for the use of any inventions covered by existing patents or applications for patents for glassware machinery.
>
> "Since paragraphs 21 to 24 (a) inclusive are to be eliminated, this paragraph which is ancillary to them, should also be deleted from the decree, *but in view of the nature of the conspiracy found,* an injunction should go against the further prosecution of all infringement suits pending at the date this suit was brought. Hartford and the other corporate defendants mentioned in

paragraph 24 should be required to lease or license glass-making machinery of the classes each now manufactures to any who may desire to take licenses (under patents on such machinery or on improvements, methods or processes applicable thereto) at standard royalties and without discrimination or restriction, and if at the time of entry of the decree there are any alleged infringers who are willing to take such licenses they should be released, and *the patent owner deprived of all damages and profits which it might have claimed for past infringement.* The decree should, however, be without prejudice to the future institution of any suit or suits for asserted infringements against persons refusing to take licenses under any of the presently licensed inventions *arising out of their use after the date of the decree.*" (Emphasis added.)

It is of compelling significance that this order was entered despite a strong factual showing that the misuses had been terminated long before the entry of said order. (Joint Brief for Appellants on Reargument, September 1944, pp. 92-102.) This is completely contrary to the situation presented by the record before the District Court in the case at bar.

The rule of anti-trust law established in the *Hartford-Empire* case has been consistently followed. See *United States* v. *National Lead Co., supra,* which followed *Hartford-Empire* and which also involved misuse of patents to control an entire industry. Judge Rifkind followed the teaching of the *Hartford-Empire* case and granted the Government the same remedies as that in *Hartford-Empire*, namely, compulsory licensing at reasonable royalties of existing and future patents, *and an injunction against suing any person for the alleged infringement, prior to the date of the final decree, of any misused patent* (63 F. Supp. 513, 535). This relief was affirmed by this Court (332 U. S. 319). See also *United States* v. *Vehicular Parking, Ltd., supra.*

The *Hartford-Empire* remedy was properly granted by the District Court because in this case the need for an injunction against infringement actions arising out of the pre-decree period is even clearer than it was in the *Hartford Empire* and like cases. The restraints of trade found in the case at bar have been recognized as being of a much more serious nature and pervasive effect than those commonly revealed in patent misuse cases. See *Westinghouse Electric Corp.* v. *Bulldog Electric Products Co., supra.* Morevoer, the decision of this Court in the *Hartford-Empire* case, *supra,* demonstrates that it is unnecessary to inquire into USG's conduct prior to entry of the Final Decree of May 15, 1951 to determine whether USG purged its patent misuse at any time prior to that date. For USG could not possibly make the same showing of termination of unlawful patent practices as that made by Hartford and its corporate co-conspirators. Indeed, unlike Hartford and its corporate co-defendants, USG at no time during the trial adduced any evidence that it had abandoned the restrictions of its licensing system; and USG contended, until at least May, 1950, that these restrictions were lawful.

There can be no question that, in a case like that here involved, an injunction against enforcement of misused patents for the pre-decree period is appropriate and vital to complete an effective anti-trust relief. Consequently, only a firm rule against infringement actions for the period antedating the anti-trust decree can effectively lead a co-conspirator to break away from an anti-trust conspiracy, as the smaller gypsum companies did in this case.

It is unnecessary to speculate why, when the Final Decree was formulated, the Government did not insist, in the *Gypsum* case, on the explicit injunction against infringement actions to which it was entitled under *Hartford-Empire,* and which it had sought in its complaint (1947 R. 346-347). At the time of the formulation of the 1951

decree, the record shows that the only claims under misused patents which USG or any other corporate defendants might make for the period prior to the entry of that decree were under patent licensing agreements adjudicated illegal, null and void by the 1951 decree; therefore, it was reasonable to believe that such adjudication barred any claim for use of misused patents prior to the 1951 decree, and made any additional relief unnecessary. In addition, USG did not, prior to the 1951 decree, assert any infringement claim against Certain-teed, or any of the other defendant licensees, or any other gypsum manufacturer. Before the 1951 decree it did not even send a notice of infringement to any of the defendant licensees or to any other gypsum board manufactuerer. At the time of the entry of the decree, therefore, on May 15, 1951, there was no indication that USG would attempt to assert infringement claims under its misused patents for any period prior to the entry of such decree. In this connection the statement made by the Government in its brief in the District Court (R. 814, footnote 6 hereof) is illuminating.

USG having asserted infringement and other claims against its competitors for the period prior to the entry of the 1951 decree, the District Court appropriately applied the rule of the *Hartford-Empire* case, forbidding the enforcement of misused patents, prior to the entry of a final decree in an anti-trust suit, where such patents have effectuated control of an entire industry.

We shall discuss in Point V hereof the propriety of the District Court's rejection of USG's contentions based on *Hartford-Empire*.

V.

USG'S CONTENTIONS BASED ON HARTFORD-EMPIRE, RULE 8 OF THE FEDERAL RULES OF CIVIL PROCEDURE AND 35 U.S.C., SECTION 271(d) WERE PROPERLY REJECTED BY THE DISTRICT COURT.

USG contends (USG Br. 36) that the District Court erroneously held that a continuing unpurged misuse of patents existed, as a matter of law, because USG sought compensation from the corporate appellees for the use of its patents in the years 1948-1951; that this holding was based upon the pleading by USG of Counts I and II of its complaint. In support of this contention USG refers to Conclusion 13 (R. 1157) from which certain significant language has been omitted.

USG's statement of the District Court's position is misleading. The District Court did not hold that the mere bringing of an action to recover money for the use of patents constituted misuse. It stated the basis for its holding of continued misuse in Conclusion 13 (R. 1157) as follows:

> "The course of conduct of USG, *as clearly shown by the proceedings of record in the Anti-trust case and in the suits by USG,* must be construed as meaning that USG has continued after May 15, 1951 to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree" (emphasis added to indicate language omitted by USG).

It is urged by USG that the District Court's conclusion of law is not supported by any precedent and that the District Court's decision based thereon is in conflict with

Hartford-Empire, Rule 8 of the Federal Rules of Civil Procedure and the provisions of 35 U. S. C. § 271(d). The premise for these contentions is USG's claim that this Court in this case had found only a narrow Sherman Act violation (USG Br. 39). As we have heretofore repeatedly pointed out, this claim is completely without merit and was rejected by this Court twice and by the District Court in formulating its decrees of May 15, 1951 and December 9, 1954.

(a) In granting the relief sought by the Government with respect to compulsory licensing in the Government's appeal from the Decree of November 7, 1949, this Court, in its opinion in 340 U. S. 76 found such serious patent abuses as would warrant the relief sought by Certain-teed and the other corporate appellees; and the District Court so found. Article VI of the November 1949 Decree provided merely for compulsory licensing of all gypsum board patents for 90 days, to any applicant, at a royalty not in excess of the royalty theretofore charged to defendant licensees. On its appeal from that decree to the Supreme Court, the Government sought to expand the requirement of licensing to include *all* USG patents, old and new, with a provision by which new patents might be relieved from the compulsory licensing requirement after a period of years.

In support of this relief, the Government, like appellees in the instant proceeding, relied most heavily upon the *Hartford-Empire* and *National Lead* cases, contending that the broad misuse of patents, USG's position as the dominant factor in the industry, and USG's licensing policy, justified these remedies. The Government's brief pointed out that, in the *National Lead* case, the restraints were not as serious as in *Gypsum* and, therefore, remedies provided there should, *a fortiori*, be applied to *Gypsum*.

USG made substantially the same arguments in answer to the Government's appeal as it addressed to the District Court. In effect the same argument is made to this Court. USG contended that compulsory licensing was "an extreme and drastic remedy" heretofore applied only when necessary "to prevent further continuance of the violation enjoined in the decree"; that compulsory licensing under any other circumstance "is but to impose penalties in the guise of preventing future violations".[11] The *Hartford-Empire* and *National Lead* cases were sought to be distinguished on their facts: it was argued that in *Gypsum*, unlike *Hartford-Empire* and *National Lead*, the violation was a limited one; that the defendants were not guilty of bad faith.

This Court rejected USG's argument, stating (340 U. S. at 93-94):

> "In *United States* v. *National Lead Co.*, 332 U. S. 319, 335-351, we recently dealt with problems of licenses and royalties after a finding of Sherman Act violation. The arrangements on account of which the companies manufacturing titanium pigments in that combination were adjudged violators *were as offensive to the prohibitions of the Sherman Act as those proven in the present case.* Depending largely upon the discretion of the trial court, we refused to modify the decree. It ordered the accused patent owners to license all patents controlled by them concerning titanium and titanium manufactures during the succeeding five years at a reasonable royalty to be fixed by the Court. Paragraphs 4 and 7 of that decree, 332 U. S. at 335-357."
>
> "We think that the United States Gypsum Com-

11. The latter phrase is again quoted by USG at p. 40 of its brief. Yet this Court in *Hartford-Empire* where the quoted statement appears had no difficulty in granting compulsory licensing and in enjoining suits for infringements of misused patents prior to the date of the final decree.

pany should be required to license all its patents in the gypsum products field to all applicants on equal terms. Whether the term for compulsory licensing of new patents is to be five years, *or for a longer period* with the privilege to the appellees to move for a limitation for such new patents, as provided in the suggested decree, Article VI, § 6, we leave to the District Court." • • • (Emphasis added.)

It is clear, therefore, that this Court regarded the violation in *Gypsum* as at least as offensive as that in *National Lead*. The only discretion which this Court left to the District Court upon remand was the choice of the same or a more drastic remedy patentwise than in *National Lead*.

We have discussed *Hartford-Empire* and its significance to the remedy of modification ordered by the District Court in the 1954 decree at pp. 62-67 hereof. It will be recalled that in *National Lead*, the District Court followed the *Hartford-Empire* case and *also enjoined the defendant patentee, National Lead and DuPont, from bringing any infringement suits for royalties under their misused patents for any period of time prior to the entry of the decree.* This Court affirmed that decree, with praise (332 U. S. at 319).

Certainly one of the fruits of the conspiracy in which USG was the dominant factor was the promise on the part of the defendant licensees to pay royalties for the protection given by the price-fixing scheme. Appellees had already paid to USG millions of dollars in royalties for the use of USG's patents which were the means of fixing prices in the entire industry. If USG were to collect all the royalties claimed by it up to the time of the entry of the 1951 decree, it would obtain every benefit of the illegal conspiracy.

The District Court's Conclusion of Law with respect to *Hartford-Empire* reads:

> "Both because of the practical and legal situation in this case, and, also, the teaching in the *Hartford-Empire* case, the Final Decree should be modified to cover prohibition from prosecuting the USG suits insofar as they are based on patent infringement during the period covered by those suits." (Conclusion of Law 16, R. 1158.) See also the Court's opinion (R. 1009-1010).

USG contends that this Court in *Hartford-Empire* recognized that it was not a violation *per se* of the anti-trust laws for a patentee that has illegally licensed its patents to seek reasonable compensation for the use of those patents (USG Br. 38). This contention is based upon the argument that ear-marked royalties collected by a court-appointed receiver were in part paid over to Hartford-Empire. It should be noted at the outset that the ear-marked royalties problem was a special one peculiar to that case. The lower court had appointed a receiver at the time of the entry of the decree in order, *inter alia*, to prevent any abuse of the patent privileges of Hartford. (46 F. Supp. 541, 620 D. D. C., 1942.) The licensees had paid royalties to Hartford's receiver during the period between the initial and final decrees. Hartford's licensees, therefore, were not infringers during this period. This Court's disposition of this unique problem in its *second opinion* (324 U. S.) does not in any way limit its broad holding in its first opinion, followed in *National Lead*, that all defendants (including Hartford) are to be enjoined from bringing infringement claims under misused patents for the period prior to entry of the final decree (our period) and to license them at reasonable royalty rates thereafter. This Court's holding as to the disposition of the funds paid to the receiver constitutes no

precedent for USG's suits, filed long after the entry of the 1951 decree, based on the illegal license agreements and the so-called alternative counts.

This broad holding, derived from the Supreme Court's first *Hartford* opinion, was undoubtedly in the District Court's mind in finding that the teaching of the *Hartford* case was that infringement claims for the period prior to May 15, 1951, were to be barred. *Hartford,* therefore, fully supports the District Court's action in enjoining USG from enforcing its infringement counts.

We submit that this Court in the second *Hartford* opinion did not intend to draw a distinction between infringement and *quantum meruit* claims under patents; that the *quantum meruit* claim allowed was only as to rental and service charges for use of Hartford's machines, and not its patents; and that the second *Hartford* opinion cannot be construed to permit USG to go forward on its *quantum meruit* claim.

The construction of the second *Hartford* opinion contended for by Certain-teed is supported by the well established principle that a *quantum meruit* claim will not lie for the use of a patent.[12] We submit, therefore, that the

12. The remedies available for patent infringement are wholly statutory and have no common law basis. *Gayler* v. *Wilder,* 51 U. S. 477, 493 (1850); *Bellavance* v. *Plastic-Craft Novelty Co.,* 30 F. Supp. 37 (D. C. Mass., 1939). The patent owner has the election to sue at law for damages for infringement, or seek an injunction, accounting and damages in equity. 35 U. S. C. §§ 281, 283, 284; *Ryan Distributing Corp.* v. *Caley,* 51 F. Supp. 377 (E. D. Pa., 1943), aff'd 147 F. 2d 138 (C. A. 3rd, 1945), cert. denied 325 U. S. 859.

Infringement of a patent is a tort. *Carbice Corp.* v. *American Patents Corp.,* 283 U. S. 27, 33 (1931); *Stein* v. *Goddard,* 22 Fed. Cas. No. 13,353 (C. C. Cal., 1856); 69 C. J. S. p. 890. Accordingly, the law will not resort to the fiction of a contract on the part of the infringer to sustain a quasi-contractual action. *In re Paramount Publix Corp.,* 8 F. Supp. 644 (S. D. N. Y., 1934); see 1 Williston on Contracts, § 3.

It has been held in several cases that there is no quasi-contractual

District Court correctly held that Hartford-Empire furnished authority for and supports its 1954 decree ordering USG to dismiss its claim for infringement against the appellees.

(b) USG urges that the District Court's misuse of patent ruling is in conflict with Rule 8 of the Federal Rules of Civil Procedure (USG Br. 41). In ruling upon the misuse of patents, the right and power of the District Court to modify the 1951 decree did not rest upon that Court's interpretation of USG's pleadings. In Conclusion of Law 12 (R. 1157) the District Court found that Counts I and II based on the illegal license agreements violated the decree and that the so-called alternative counts were simply an indirect way of attempting to recover that which the final decree purposed to prevent. As we have heretofore pointed out, *quantum meruit* cannot lie for patent infringement, as the remedies for patent infringement are wholly statutory.

The *quantum meruit* counts are also barred because of the precept of *pari delicto*. It is settled by *Bruce's Juices* v. *American Can Co., supra* (at p. 748) that:

> "No recovery on *quantum meruit* could be had. The general rule is that a transaction wholly illegal will not support such a suit. See Williston, Contracts, Rev. ed. (1938) § 1786A; Am. Law Inst. Restatement, Contracts, Vol. 2, § 598, comment."

And again, at p. 756:

> "If, in order to prove his own case a plaintiff proves his violation of law, then no court will aid the plaintiff to recover."

---

action for patent infringement. *In re Paramount Publix Corp., supra; In re Boston & Fairhaven Iron Works*, 23 Fed. 880 (C. C. D. Mass., 1885); *Schillinger* v. *United States*, 155 U. S. 162 (1894); *United States* v. *Palmer*, 128 U. S. 262 (1888); cf. *DeWitt* v. *Elmira Nobles Mfg. Co.*, 66 N. Y. 459 (1876); *Cohan* v. *Robbins Music Corp.*, 244 App. Div. 697 (1st Dept., 1935).

USG's claim for *quantum meruit* is inseparably connected with and has its source in the unlawful license agreement between USG and Certain-teed; it is and must of necessity be based on Certain-teed's use of the misused patents prior to the entry of the final decree on May 15, 1951.

If Count III is read as a *quantum meruit* count, it is equally barred by this precept. If it is read as the District Court found, as a count "based on a pleaded expressed contract" (R. 1008) then it is, in effect, an amendment to the license agreements and, under the 1951 decree, also illegal, null and void; and action thereon was barred by said decree.

As to the infringement count, we have pointed out, at pages 63-67 hereof, that the District Court under the teaching of *Hartford-Empire* properly modified the 1951 decree to enjoin suit thereon by USG.

By this process of elimination it must be conceded that the District Court was called upon to pass on claims based on the illegal contracts or, at the most, upon said contract counts and a count for infringement. Under USG's theory, the Court should have treated USG's complaint as only a suit for infringement. We submit that this would be completely unrealistic because Counts I and II stated definite grounds for claimed relief and must be so regarded. These counts evidenced clearly that USG's claimed rights for compensation for the use of its patents stemmed from the illegal and void license agreements.

The District Court properly said of this contention of USG, "Those Counts (I and II) state definitely ground for claimed relief and must be so regarded" (R. 991).

USG (USG Br. 41) states that the sole function of a complaint in the District Court is to give a simple statement in sequence of the events which have transpired,

coupled with a claim for judgment for what the plaintiff hopes and expects to recover. We have no quarrel with this statement, but we contend that the District Court, having considered the events which have transpired in this case, necessarily concluded that USG was seeking to recover upon its illegal, null and void license agreements. The obvious problem with which USG was confronted in seeking recovery from the appellees was how to effect recovery on an illegal contract. The argument made by USG at p. 42 of its brief clearly shows how all of its claims are inter-related and inseparable and demonstrates that all of its claims stem from the illegal agreements.

The District Court, by its ruling in this case, did not penalize USG for pleading alternate and inconsistent claims. The gravamen of the District Court's ruling is that no matter how USG pleaded it was attempting to recover the royalties claimed to be due to it under the illegal license agreements, or the money equivalent thereof.

As we shall hereinafter point out, the Government has not implicitly acknowledged the correctness of USG's analysis stated at p. 43 of its brief.

(c) USG next contends that the Court's continued misuse ruling is in conflict with recent patent law codification. Quoting Sec. 271(d) (USG Br. 46).

From the face of Sec. 271(d) it appears that it merely lays down the principle that a patentee, *otherwise entitled to relief*, is not guilty of misuse by merely enforcing his patent right against *infringement or contributory infringement*. USG did not, in the instant proceeding, merely seek to enforce patents against infringement or contributory infringement. Its infringement claim constituted only one of five or six counts. The District Court's continued misuse ruling rests in part upon the fact that USG added to its infringement claim claims under the illegal license agreements (R. 1157).

It also appears plainly from the face of the statute that USG is in error in claiming that a suit on a license agreement is an enforcement of a patent right within the meaning of the statute. The statute is limited solely to enforcing "rights against infringement". A suit on a license agreement is on a contract; a suit for infringement is for a tort. The distinction is basic in the whole patent field.

Moreover, when the legislative history of Section 271(d) is examined, it is apparent that USG's construction of the statute has stretched and twisted its meaning. Section 271 of the Patent Act of 1952 developed as a result of the *Mercoid* cases [*Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661 (1944) and *Mercoid Corp.* v. *Minneapolis Honeywell Regulator Co.*, 320 U. S. 680 (1944)]. In the *Mercoid* cases this Court held that a patentee who was using his patent as an effective means of restraining competition in an unpatented article was guilty of misuse, and could not succeed in a contributory infringement action against one deliberately selling the unpatented article to an infringer, even though the unpatented device was itself an integral part of the patented system. Language in this Court's opinions that a patentee cannot use the patent to acquire a monopoly which is not plainly within the terms of the patent grant, raised the question whether a patentee, otherwise free of any misuse of his patent, could be said to be attempting to extend his patent grant and thereby misusing it by merely bringing a suit for contributory infringement. The *Mercoid* cases were interpreted by some members of the patent bar to forbid any contributory infringement suits [see, *e. g.*, Giles S. Rich "Infringement Under Section 271 of the Patent Act of 1952", 21 Geo. Wash. L. Rev. 521-46 (April 1953)], and at least one decision directly so held. *Stroco Products* v. *Mullenbach*, 67 U. S. P. Q. 168 (S. D. Cal., 1944). See also *Master Metal Strip Service* v. *Protex Weatherstrip Mfg.*

Co., 169 F. 2d 700 (C. A. 7th, 1948), cert. denied 335 U. S. 898.

In the *Stroco Products* case a contributory infringement action was dismissed on motion for summary judgment on the authority of the *Mercoid* cases, despite the fact that there was no evidence before the court that the plaintiff had by license or otherwise attempted to secure a monopoly on the unpatented portions of the complete combination covered by its patent. The district court held that the mere bringing of suit was misuse of plaintiff's patent.[13]

Because of the doubt and confusion as to the state of the law caused by the *Mercoid* cases and conflicting decisions resulting therefrom, the New York Patent Law Association sponsored various bills which resulted in the enactment of Section 271. See Hearings Before Committee on the Judiciary on H. R. 5988, 80th Cong. 2d Sess. (1948); Hearings Before Committee on the Judiciary on H. R. 3866, 81st Cong. 1st Sess. (1949); Hearings Before Committee on Judiciary on H. R. 3760, 82nd Cong. 1st Sess. (1951).

The resulting statute, Section 271, was designed to, and did re-assert conclusively the right to sue for contributory infringement. Subsection (d) is ancillary to subsections (b) and (c) which define and limit contributory infringement of a patent. Reviser's Note to Section 271. Subsection (d)'s purpose, in the words of the Judiciary Committee

13. It should be noted that this case is a direct holding that the mere bringing of suit can be misuse. Legislation, *i. e.*, Section 271 (d) overruled this case, but only in its limited field. Cf. *Kobe* v. *Dempsey Pump Co., supra.* It may be that there are no cases as USG contends (USG Br. 46) directly holding that the mere bringing of a suit on an unlawful license agreement and in the alternative compensation for patents covered by said agreement, but that is undoubtedly due to the fact that no one before has urged, as has USG, the right to recover royalties on a license agreement adjudged to be illegal, null and void.

Report, is to provide "that one who merely does what he is authorized to do by statute is not guilty of misuse of the patent." Sen. Rep. No. 1979, 82nd Cong. 2d Sess. p. 8 (1952); H. R. Rep. No. 1923, 82nd Cong. 2d Sess. p. 9 (1952).

It can be seen from the above history of Section 271, both case and legislative, that it is designed to clarify the law only in the limited area of contributory infringement, and authorizes actions for contributory infringement where the patentee is not otherwise misusing his patent.

We submit that, for the foregoing reasons, USG cannot claim that its suits on license agreements which have been adjudicated illegal because of misuse of patents are proper because of any argument based on Section 271(d).

Cole v. *Hughes Tool Company*, 215 F. 2d 924 (10th Cir., 1954), cited by USG (USG Br. 44-45) is of no assistance to USG's position on this question. All that was held in that case was that one who in good faith seeks by an infringement suit to enforce a patent found invalid for lack of invention, is protected by § 271 (d). Hughes unlike USG was not seeking to recover on a license agreement adjudicated to be illegal or upon misused patents. USG's situation is akin to Kobe, in *Kobe* v. *Dempsey Pump Co.*, *supra*, whose conduct in monopolizing the rodless pump industry through the acquisition of patents is referred to by the Court of Appeals in the *Hughes* case as evidencing conduct which could not claim the protection of Sec. 271 (d).

USG's argument that the ruling of the District Court was in conflict with Section 271(d) of the patent laws was completely answered by the District Court's memorandum opinion in its denial of USG's motion for a new trial (R. 1336). As the District Court pointed out:

> "The vital words of 271(d) are 'entitled to relief'. • • • We cannot believe that paragraph (d) was in-

tended to or can properly be construed as nullifying the power of this Court to effectuate the purposes of an anti-trust decree. In short USG is *not* 'otherwise entitled' to come within paragraph (d)(3)."

It seems to us clear that where, as here, there has been a misuse of patents adjudged to be violative of the anti-trust laws, Section 271(d) can have no application.

The Government's Position on the So-Called Alternative Counts in USG's Complaints.

USG has repeatedly urged in its brief (USG Br. 20, 31, 43, 65, 70) that the Government does not question the right of USG to seek a *quantum meruit* or infringement recovery; does not contend that assertion of such claims is violative of the 1951 decree; that, as a result, there is no dispute between the Government and USG that the *quantum meruit* and infringement claims, the so-called alternative counts, are not in violation of the 1951 decree or in conflict with its basic purpose; that the Government has implicitly acknowledged that under Rule 8 of the Federal Rules of Civil Procedure reliance by USG on Counts I and II of their suits would not bar USG's claims on the so-called alternative counts.

These statements are conclusions of USG, and as we have shown at pages 19, 21, 35-36 hereof, are not correct. The Government invoked the jurisdiction of the District Court to enjoin USG from prosecuting its suits in the District Courts of Iowa, New York and New Jersey, because they were based in whole or in part upon the illegal license agreements and were, therefore, barred by and constituted an attempt to defeat the 1951 decree. The Government further expressly stated that the District Court which entered the 1951 decree was alone empowered to determine what further orders, if any, it would

issue by way of implementation or modification of its judgment. The same arguments which USG has made in its brief in this Court were made before the District Court and rejected. The Government did not agree with the conclusions stated by USG, nor did the District Court. We submit that no weight should be given by this Court to these assertions of USG.

Throughout the long history of this case, the Government has consistently sought to establish a broad violation of the anti-trust laws through the use of patent license agreements by USG as the principal "dominant concern in the gypsum industry." 333 U. S. 368. In order to accomplish this purpose it has taken two appeals to this Court, resulting in the enlarged and broadened decree of May 15, 1951. When USG's suits were filed, the Government filed a petition praying that USG be enjoined from asserting any claim or maintaining any action "*based in whole or in part* on any of the license agreements adjudged illegal, null and void by the final decree of this Court * * * or on any provision thereof" (R. 757, emphasis added).

In its brief and argument in the District Court the Government strenuously urged that the District Court had jurisdiction to enjoin USG's suits both under the reservation of Article X of the 1951 decree and under its inherent equity power (R. 881).

In the face of the foregoing course of action, we believe it is stultifying for the Government to take such an anomalous position as to allow USG to make such speculations of the Government's position as are referred to above. We believe that the Government owes a duty to this Court to clearly and definitely state what its views are regarding USG's right to recover on the so-called alternative counts for exactly the same amount of money which it seeks to

recover under the counts admittedly based on the illegal license agreements. We submit that this Court should require the Government to make an affirmative statement as to its position on this point. The Government is directly responsible for sixteen years of litigation. It has created the situation now before this Court. Let it speak out.

CONCLUSION.

For the foregoing reasons, the Decree of the District Court entered December 9, 1954 should be affirmed.

DONALD N. CLAUSEN,
HERBERT W. HIRSH,
NORMAN A. MILLER,
Attorneys for Appellee, Certain-teed Products Corporation.

CLAUSEN, HIRSH & MILLER,
135 South La Salle Street,
Chicago 3, Illinois,

PURCELL & NELSON,
910 17th Street, N. W.,
Washington 6, D. C.,
Of Counsel.